

MEASURING AND IMPROVING GOVERNMENT PERFORMANCE

The last few years have seen a sharp expansion in the amount of activity devoted to measuring government output and indeed government performance more widely. In the European Union, this has become one of the major political and economic issues of the day. In the last couple of years, for example, the Council of EU Economic and Finance Ministers (ECOFIN) has repeatedly called for intensification of the effort to measure government efficiency and to learn from best practice ways to promote it. But in other parts of the world, too, the same issues are receiving enhanced attention.

2. Underlying this intense political interest can be discerned two sets of considerations:

- one relates to the contribution of the government and public sector to the economy overall;

- the other is more specifically related to the public sector performance per se.

These are discussed in turn.

3. The contribution to total productivity. In many of our economies, the public sector accounts for around 20 per cent or so of total GDP: in some cases rather more. For the UK and for most other countries, this is more than the manufacturing sector in total. So anyone who is interested in the overall productivity and growth of our economies, as for example, in the EU's Lisbon Agenda or in the OECD-wide Going for Growth project, has to be at least as interested in public sector productivity as in that of manufacturing. Moreover, there is a further reason why governments

should be particularly interested in public sector productivity. With the private sector, they can set policy frameworks, influence incentives, persuade, cajole, educate and so on, to try to improve productivity performance. But so far as the public sector is concerned, governments and public authorities have direct managerial leverage and corresponding direct responsibility. Furthermore, many of the services that governments provide – education and training, legal and other commercial framework systems, health services and so on – directly condition the productivity performance of the rest of the economy.

4. Public sector performance. The key underlying issue here turns on a simple but powerful piece of political economy. In all of our societies, citizens come to expect ever increasing standards of service from government and from the public services more widely, just as they expect improving services provided by the private sector. But, at the same time, the desire for increasing taxation to pay for these services not present to the same degree. The only way to square this circle is to ensure that whatever governments can afford to spend produces the highest possible outputs, so meeting our citizens' aspirations. In other words the efficiency or productivity of government spending has to increase over time. It is not unreasonable, of course, to expect that it should do so, just as we regard rising productivity in the rest of the economy to be the norm.

5. Allied to this desire to meet society's expectations, governments are subject to rising demands for accountability. On the whole, governments in developed economies are reasonably good at accounting for the money that they spend, and have been for a long time. But at the same time citizens, taxpayers and users of government services – substantially overlapping groups - have a legitimate demand for accountability as to the

use made of the tax revenues that governments spend on their citizens' behalf. Has the money been spent to good effect, achieving the outcomes that society collectively wants, or, at the other end of the scale, has the money been wasted?

6. Sharpening the urgency of both of these considerations is that fact that virtually all of our economies are ageing, and at an accelerating pace. In some cases, this is already underway. This means that age related expenditures such as on health and social care services will be subject to upward pressures that successive finance ministries will find difficult to resist. At the same time, the proportion of the population of working age - who form the main part of the tax base - will shrink significantly over coming decades. In the limit, without rising productivity of government spending, the sustainability of the public finances would be called into question.

7. Note also that for these public finance purposes, the scope of the issue becomes very much bigger. While the public sector typically accounts for around a fifth of GDP, governments also engage in large scale transfers through the social security system of roughly the same magnitude. Notwithstanding that they are transfers from one part of the economy to another, they all need to be financed from government revenues. Taxpayers and finance ministers will again want to know whether these expenditures are worthwhile and achieving their intended purpose.

Public sector productivity as part of overall productivity.

8. In this context, we are concerned here with the contribution of public sector output to overall GDP. So it is natural and unavoidable that

measurement of public output and productivity, for this purpose, should take place within the well developed framework of national accounting. Indeed, it was the decision of the national accounting community in the 1980s to move away from the traditional <output = inputs> convention for measuring public sector output in the national accounts that first sparked off the current major work programmes in this area around the world. Their decision, embodied in the 1993 System of National Accounts convention, recognised that an assumption of perpetual zero productivity change for the public sector was so far from reality as to be untenable.

9. But what to do in the absence of the convenient “output is whatever you spend” convention? One way to think of gross domestic product is as cumulative added value by the various successive economic processes that make up national production. In the case of the private sector, there is normally a market and a market price so that it is possible to determine value and value added from direct observation. In the case of the public sector, there is usually no market to serve this function. So value has to be inferred indirectly. For typical public services such as health and education, this will not be straightforward, though not impossible.

10. In his *Review of the Measurement of Government Output and Productivity in the National Accounts* (2005), Sir Tony Atkinson argued first and foremost for a principled approach to this measurement task. This, he believed, was necessary, first, to ensure the intellectual integrity of public output measurement within the national accounts and to ensure consistency with the rest of the accounts, and, secondly, to guard against the problems which had arisen in Britain and elsewhere from an excessively opportunistic and incremental approach. He accepted the

argument, and made it his first principle, that public sector output should be measured by reference to the value it generated.

11. This is a good starting point. But value normally has both a quantity and a quality dimension. How many diamonds do I have and what is the quality of each of them? In the main public services, we normally have reasonably good information on the quantity side. We know how many patients the health service has treated, how many pupils have been taught in schools and so on. But it is the quality dimension which presents the greater challenge.

12. Some progress can be made by use of the traditional and powerful national accounting method of differentiation. The aim is to differentiate the aggregate into groups sufficiently small that they can be considered homogeneous in all relevant aspects, including quality. To take the health service as an example, in the UK the measurement of outputs distinguishes between some 2000 or so separate treatment categories based on so-called Health Resource Groups which are clinically similar and with similar resource intensity. This is an improvement over an aggregate measurement which would implicitly treat a full heart and lung transplant, for instance, as the same in output terms as a simple ingrowing toenail correction.

13. But this takes us only so far. It seems obvious that there are aspects of health care quality with which differentiation will not deal. One is whether the treatment leads to health gain. A medical intervention which fails due to the poor quality of the clinical input is obviously of less value to the patient than one that successfully treats him or her. This suggests that separate quality adjustments based on reference to the outcome achieved

are an additional necessary step. In the field of education, the equivalent relevant outcome might be the degree of educational attainment achieved. It would be one thing for pupils to be taught in a class room. But if the outcome was little or no educational attainment, due to the poor quality of the teaching, one would want to score the output as lower than if the same process with better quality teaching had led to increased educational attainment.

14. The process of considering and making quality adjustments based on outcomes forces attention as to what the desired outcomes are. What is from public services that society actually wants? In the case of schools, is it increased educational attainment that is the objective? Or is it to produce well balanced, cultured citizens that can contribute to and benefit from society as a whole? Or is it, at least in part, to provide reasonable quality childcare? Presumably, labour market participation rates, especially of women, would fall sharply if schools were not looking after children for a large part of the working day.

The value for money of public spending.

15. Any realistic study of the efficiency of public spending is likely to go wider than just looking at its contribution to GDP. There are good reasons why it should:

- the overall output of public spending may be of interest in itself. But citizens and policymakers are also likely to be interested in particular aspects of spending efficiency and effectiveness. Even if the aggregate output and productivity of a public service looks satisfactory, that may hide a multitude of

problems in particular areas or in the delivery of specific aspects of the service.

- The national accounts are judgment free about distributional issues. GDP is concerned only with aggregate value, regardless of who benefits from it and, for that matter how widely or evenly those benefits are enjoyed. In practice, governments and societies are likely to have objectives for such considerations. Access and fairness are therefore additional considerations that need to be taken into account.

- More generally, public services and other areas where governments spend money are large and complex. It is not likely or realistic to suppose that the performance of such services could be adequately described by a single measure. A range of information will be needed.

16. Various bodies across OECD countries have a natural role in assembling such information, though exact responsibilities vary from country to country:

- Finance ministries have an obvious interest in such information and in some countries play a role in measuring and improving performance. In other countries, separate departments within government have principal responsibility for this
- Parliaments, often working with and through audit bodies, have an equally key role

- Inspection bodies, charged with spreading best practice and raising standards
- National Statistical Institutes, not only by virtue of their responsibility for the national accounts but also via a wider responsibility to provide information and analysis on the state of society and the performance of government
- Perhaps in some ways curiously late, but certainly energetically over the recent past the academic and research communities have become active in this field.

17. But having noted earlier that no single indicator or statistic can describe realistically the performance of a complex public service, it does not follow that an ever-growing wide range of disparate performance indicators, furnished by some or all of the above, serves citizens well either. Duplicating, overlapping and potentially intellectually inconsistent measures are more likely to confuse than to shed light.

18. In one sense, the issue here is the obverse of that for the national accounts. GDP is measured within a rigorous intellectual framework, with a high degree of comparability between countries. However, national accounting's rigour and deliberate restrictiveness mean that it can not do justice to the comprehensive measurement of public sector performance. On the other hand, the craft of measuring the value for money has developed in a very free-hand kind of way. This has yielded no problems therefore of excessive restrictiveness. But if an audit office, NSI or a finance ministry produces a set of performance indicators, benchmarks or targets for a particularly public service or area of government spending, it is not clear by what criteria they should

be judged as adequate or otherwise, even in the context of the particular country concerned. Making cross-country comparisons is therefore difficult, and the criteria for constructing indicator and information sets that would allow such comparisons, are even less clear.

Two key tasks ahead

19. The performance of government, and of the services that it finances, are a major contributors to societal wellbeing. Their importance is not in doubt and it is entirely right that the topic should figure prominently in a conference of this kind. As noted above, for the same reasons, there has been an explosion of interest in the subject in recent years. What now needs to be done to take this agenda forward? At least two tasks face us.

20. At a theoretical and conceptual level, progress needs to be made in defining and agreeing a consistent basis for measuring government performance. In some ways the issue is the same as that for the measurement of societal wellbeing overall. We can probably all agree that GDP is not a good or complete measure of social welfare (although, by default, it is often used for this purpose), just as measuring public sector output within GDP is not a good or complete measure of government performance. But what is the correspondingly rigorous framework going beyond the national accounts and GDP that could take us towards greater completeness?

21. The task is certainly a daunting one but probably not impossible. It is certainly possible to speculate on the principles that might underpin such a framework. Measures and indicators should, for example, presumably be comprehensive, covering all of the aspects of government performance in which citizens, taxpayers and service users have an interest. They should not duplicate or overlap and they should have close correspondence with what it is in each of these aspects that society actually wants to achieve or obtain.

22. At a more mechanical level, devices such as social accounting matrices, and satellite accounts more generally, offer possibilities for relaxing the restrictiveness of national accounts and extending the scope while maintaining their systematic rigour. While such tools have been available for many years, their potential - certainly in the area covered by this paper - remains largely unfulfilled.

23. The other agenda to be taken forward is a more practical one. For the reasons noted earlier, there is unmet demand from both policymakers and citizens for better information on public sector performance and efficiency. Being able to measure public sector output and efficiency is indispensable in any programme of action to improve performance. At the same time, as also noted earlier, accelerating activity is apparent which could, if well directed, fulfil that demand:

- many NSIs are actively working in this field. In the European Union, all Member States (with one exception that has a derogation till 2012) have been required to produce measures of public sector output for GDP purposes by end 2006, based on direct indicators

- in a number of countries, particularly those with a tradition of an outputs approach to public spending, work has proceeded in finance and or modernisation ministries to improve output and performance information. Australia, the Netherlands, the United Kingdom, Sweden, Norway and new Zealand are all cases in point

- the research community has shown increasing interest. For the two largest public services, health and education, the measurement of outputs and outcomes is closely allied to traditional health and education economics agendas

- the supranational organisations have, and are playing, a crucial role. The OECD, in particular has expertise in economics, statistics and national accounting, health and social care, and education which are all key ingredients in taking the agenda forward successfully. So, too, is its cross-country comparative standpoint.

24. If ways can be found to take forward and coordinate these currently somewhat separate work streams, the prospect for a major advance in analysis aiding policy and policy delivery is there for the taking. Perhaps this conference will serve as a catalyst to this being realised.

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