PUBLIC SECTOR PRODUCTIVITY: USER PERSPECTIVES AND POLICY USES

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DES POLITIQUES MEILLEURES POUR UNE VIE MEILLEURE

Content

1. Public sector productivity matters for policymakers for structural, fiscal and economic reasons
2. The absence of cross-country or time series public sector productivity data limits the ability of policymakers to understand and boost public sector productivity
3. Having consistent public sector productivity statistics would allow for finer policy recommendations
4. Economists and policy analysts rely on other imperfect quantitative and qualitative measures to infer policy recommendations to boost public sector productivity

Structure of the presentation (1/4)

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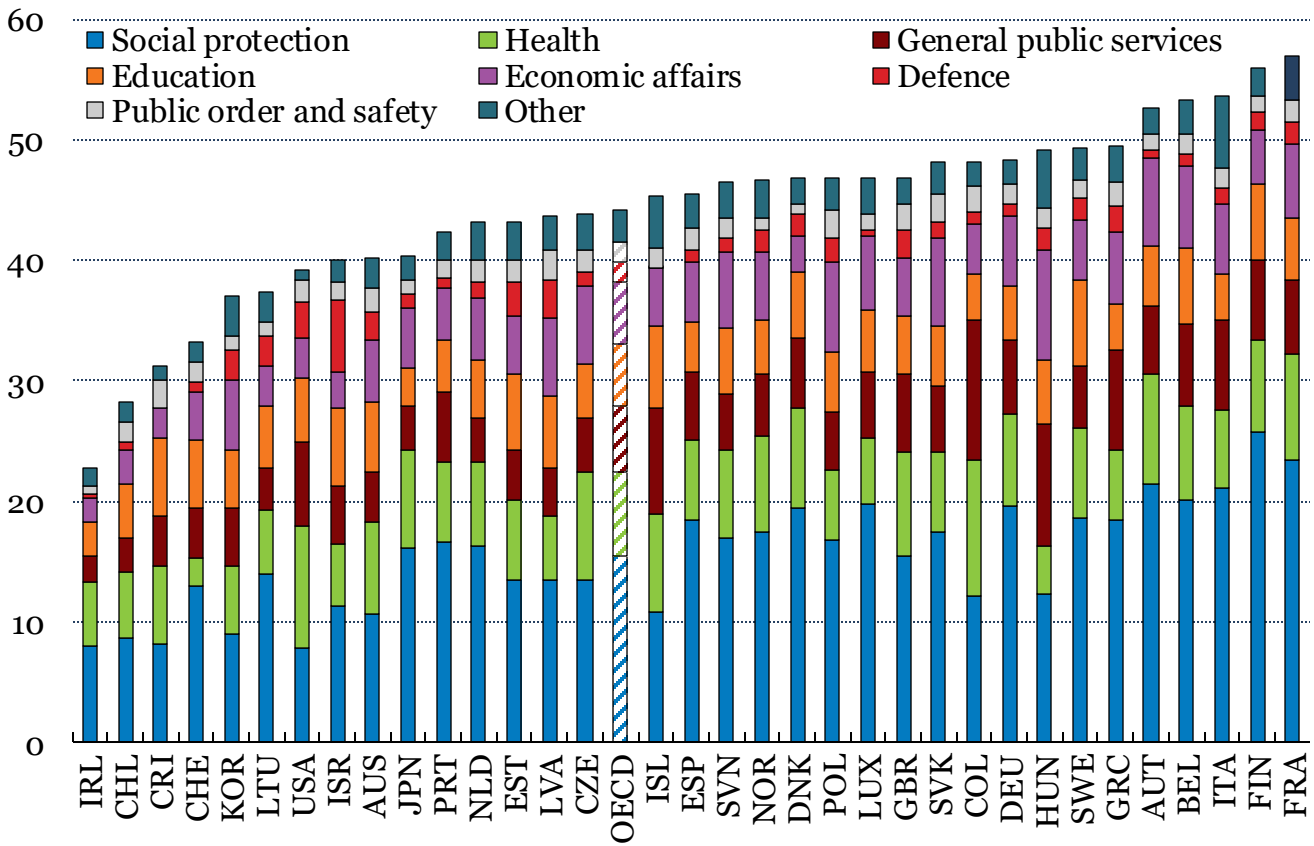
Public sector productivity matters given the size and focus of the government

- Government spending accounts for a significant share of GDP in most OECD countries, supporting the foundations of productivity growth
- **The non-market sector is a driver of productivity for other parts of the economy:**
  - A better educated and healthier workforce is more productive
  - Public innovation supports private innovation
- Governments produce essential services for all citizens using taxpayers' money

General government spending as a percentage of GDP, 2023



Note: 2023 data. General government expenditures data are from the OECD National Accounts Statistics (database), which are based on the System of National Accounts (SNA), a set of internationally agreed concepts, definitions, classifications and rules for national accounting. Other aggregates the following COFOG categories: Housing and community amenities; Recreation, culture and religion; Environmental protection. Data for Canada, Mexico, New Zealand and Türkiye are not available. Costa Rica: data refer to 2021 rather than 2023. Korea: data refer to 2022 rather than 2023.

Public sector productivity is a key policy priority for policymakers

Public finances

Ongoing megatrends and emerging global risks have been pressuring public finances

- ❑ Demographic pressures from population ageing
- ❑ Investment needs from the AI revolution
- ❑ Investment needs to finance the climate transition
- ❑ Rising fiscal pressures stemming from geopolitical events and global uncertainty

Public sector uniqueness

The public sector is unique and offers different benefits and incentives for workers

- ❑ A more educated and skilled workforce on average
- ❑ A more compressed wage distribution
- ❑ Different bargaining power dynamics
- ❑ Rising costs due to the Baumol disease
- ❑ Wage and non-wage job quality

Rising demand from governments for policy recommendations to improve public sector productivity

- ❑ Main priority requested for the research branch of the OECD Economics Department
- ❑ A recurrent and priority topic for a number of countries for OECD Economic Surveys

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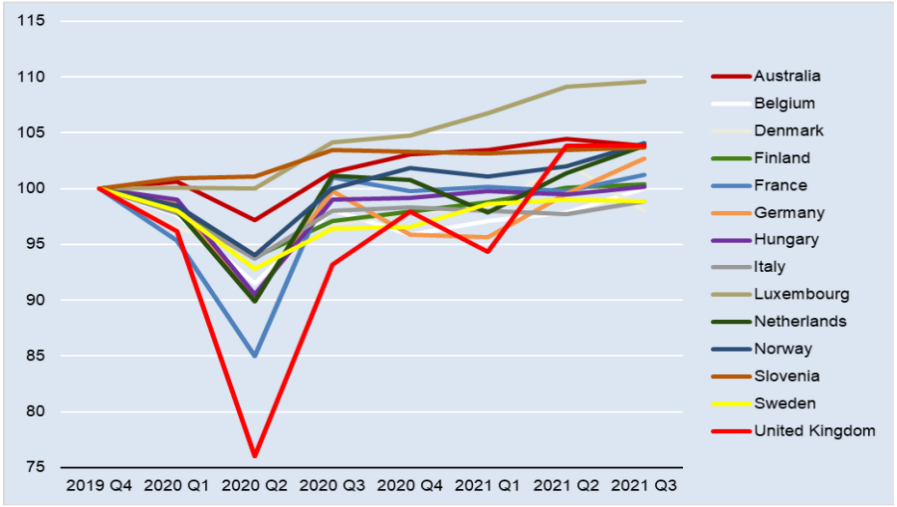
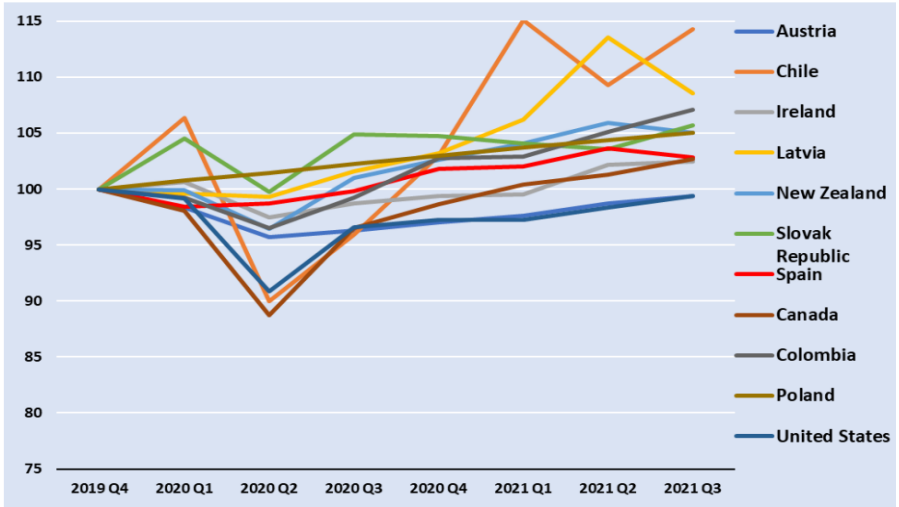
Measurement choices influence public sector productivity recommendations (1/2)

Volume change in output for industries OPQ, **countries using direct output methods for both sections P and Q**



Volume change in output for industries OPQ, countries **not** using direct output methods for both sections P and Q



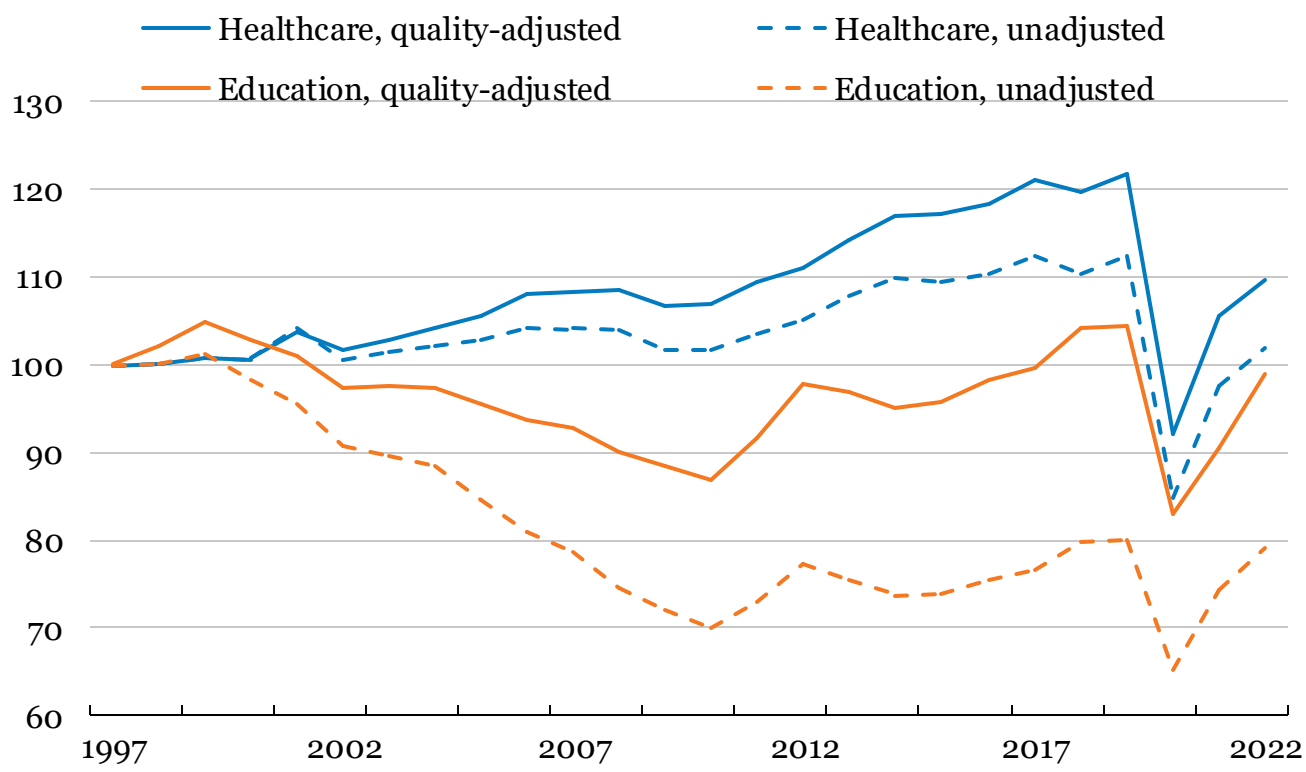
- **The use of output based measures for the health care system and for education in the national accounts is recommended but is still far from standardised across countries, with implications for cross-country comparions**
- Countries using direct output methods to measure both sections P and Q exhibited changes in industries OPQ ranging from +1.1% to -24.0% between the fourth quarter of 2019 and the second quarter of 2020, followed by rebounds beginning in the third quarter.
- For the countries using alternative methods, the change observed between the fourth quarter of 2019 and the second quarter of 2020 was less marked, ranging from an increase of 1.5% to a decrease of 11.3% with all but three countries in the +1.5% to -5.0% range.

Source: International comparisons of the measurement of nonmarket output during the COVID-19 pandemic, Mitchell et al. (2022)

Measurement choices influence public sector productivity recommendations (2/2)

- **The absence of a common definition for the volume of outputs and the likely existence of large differences in the output quality are seriously constraining the possibility of drawing solid cross-country comparisons.**
- Quality adjustment changes the assessment on productivity growth in the healthcare and education sectors.
- Overall productivity in the education sector, not adjusted for quality change, was estimated to have fallen by 0.3% per year between 1997 and 2022.
- Including quality adjustments, such as measures of students' performance or well-being, productivity growth was estimated to have fallen by 0.1% per year.

Figure 3. Effects of quality adjustment on measured total factor productivity growth in health and education sectors in the United Kingdom (1997 = 100)



Source: Office for National Statistics (ONS), released 27 March 2025, ONS website, article, Public service productivity: total, UK, 2022.

Structure of the presentation (3/4)

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Having consistent public sector productivity statistics would allow for finer policy recommendations

Understand spending efficiency drivers	Identify policies and institutions that influence the efficiency and composition of public spending: for instance, does the degree of "rigidity" of public spending hinder a government's ability to adjust spending for growth and efficiency?
Benchmark and monitor performance over time	Provide a first signal of whether sector performance is improving; flag sustained low-growth periods that may indicate technological stagnation or weak diffusion of best practice
Identify actionable policy levers	Pinpoint the drivers of efficiency gains to systematically improve service outcomes (better health interventions, more effective teaching, stronger emergency response) within existing budget envelopes.
Inform resource reallocation decisions	Guide spending composition choices across sectors; reduce the adverse effects of funding rationing by maximising outcomes per unit of expenditure.
Some limitations	Aggregate MFP estimates are a useful first step but can be too broad. Granular output measurement, at the level of individual services is also required to drive productivity improvements.

Examples of public sector productivity estimates informing policies

IMF public spending efficiency estimates (technical efficiency), linking with specific reforms

- Bahrain has implemented education spending reforms since the mid 1970s, focusing on enhancing access to schools and improving teacher education
    - During the 1980s and 1990s, the country experienced a rapid rise in efficiency, with the public education spending efficiency gap decreasing by 12 percentage points between 1980 and 2000
- Croatia implemented reforms to health care between 2008 and 2011, e.g. increasing copayments and resolving accumulated arrears, changing the mechanisms to pay for primary and hospital care, reforming the pricing and reimbursement for pharmaceuticals, and changing the way health care is provided (for example, emergency care).
    - Following the reforms, the efficiency of Croatia's public spending on health increased by 1.5 percentage points.

Healthcare productivity in Australia

- The Australian productivity commission assessed productivity growth in Australia, carefully accounting for quality adjustment
- A policy relevant result is that quality improvements, not cost reductions, were the big drivers of productivity growth, and the vast majority of these have come from advances in saving lives.
- This means that the biggest contributions to productivity growth haven't come from doing more with less, but rather from providing more effective healthcare services.
- Productivity growth has been driven by the dissemination of new treatments and health practitioners' ability to understand, diagnose and prescribe

Source: IMF Fiscal monitor (2025); Australian Government Productivity Commission, Advances in measuring healthcare productivity (2024)

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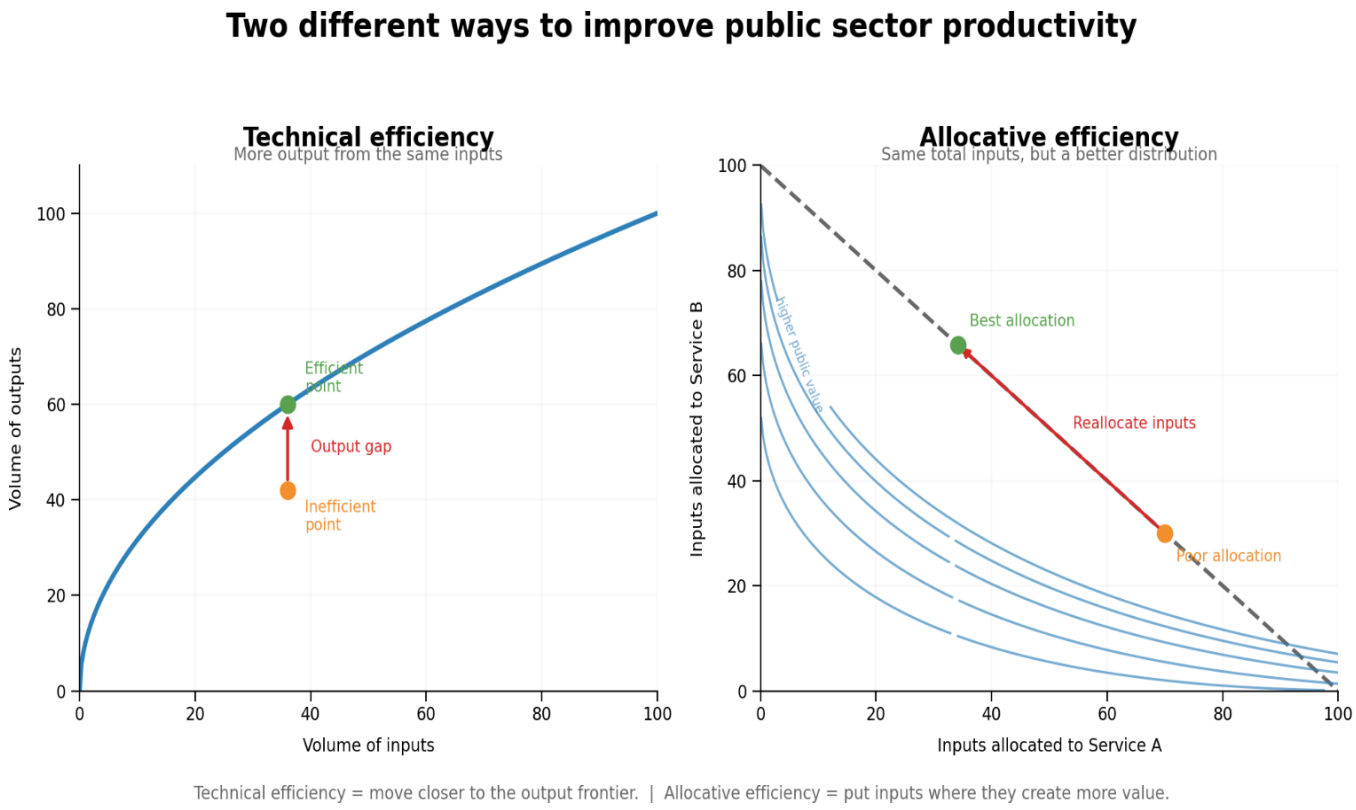
How economists and policy analysts assess public sector productivity in the absence of consistent agreed measures

- Technical efficiency: the IMF released in its October 2025 Fiscal Monitor a novel global data set of estimates of public spending efficiency
- Technical efficiency measures the gap between observed outcomes and those that could be achieved under the best management practices, technology, and institutions
- Allocative efficiency: how can government spending be reallocated to enhance growth (Barnes, Cournède, Hammer, 2025)

Technical efficiency vs allocative efficiency



Economists and policy analysts rely on micro-based assessments of public sector productivity

I. What is the scope of the public sector intervention ?

- What is the level of government spending ?
- What is the current allocation of public spending ? Does it support growth or are there inefficiencies in the allocation of spending ?
- Does the institutional setting support and encourage public sector efficiency ?
- Is the regulation system effective or too burdensome ?

II. How does the public sector deliver ?

- Are there enough or too many public employees ?
- Are public employees skilled enough to deliver efficiently public services ?
- Do pay and non-pay conditions incentivize enough efficient delivery of public employees ?
- Is the procurement system efficient, in theory and in practice ?
- Does the government embrace technological tools to raise efficiency ?

III. Who delivers across the government ?

- Are responsabilities efficiently allocated across different layers of government ?
- How can countries find balance between empowering subnational governments while maintaining consistency across the country ?
- What is the involvement of the state in the market economy through SoEs ?