

Executive summary

The Swedish economy faces great challenges in the financing of the future welfare. For example, the Long-Term Survey of the Swedish Economy from 2008 concludes that higher living standards in the future will create a tension between the desired scope and quality of welfare services and what can be delivered without increased tax rates. The Swedish Association of Local Authorities and Regions (SALAR) estimates that local government costs will increase by one per cent per year until around 2035, which will lead to a gap between costs and revenue equivalent to raising the local government tax rate by 13 percentage points (SKL, 2010). This means that, to be able to finance public consumption, productivity growth in the public sector needs to increase over the coming twenty-years.

Over the last century, Sweden has experienced a phenomenal economic development. This development has primarily been driven by increased productivity. At the beginning of the 20th century, a working week of 70–80 hours was not unusual, whereas now it is less than 40 hours. Although working hours have been almost halved, real incomes have risen by a factor of 30. An essential prerequisite for understanding the determinants of productivity and how it can be improved, is that productivity can be measured. It is therefore remarkable that work on measuring the productivity of public sector production of goods and services has not progressed more, in Sweden and elsewhere, even though the public sector accounted for approximately a quarter of the total GDP in 2009.

As defined in the national accounts, the public sector includes activities performed by the central and local governments that are financed through taxes and fees. Taxes and social security contributions make up 90 per cent of public sector revenues, with

incomes from interests and dividends from publicly owned companies accounting for much of the remainder.

In a market, consumers buy a good or a service only if their valuation of what they receive is at least as high as the price they pay. This is rarely the case with publicly produced goods and services, which makes it difficult to estimate their actual values to the citizens. In the national accounts, the value of public consumption is therefore assumed to be equal to its cost, i.e. the value of the production factors used. This means that production growth, by definition, is equal to zero. In accordance with an EU regulation, Statistics Sweden now (since November 2007) estimates production volumes for the public sector production of goods and services for individual consumption (Björling et al., 2008), which makes it possible, to some extent, to calculate a unit cost and hence productivity growth. However, these measures are rough and uncertain, and relatively little account is taken of the improvements in quality.

In many ways, it is surprising that the situation is not better. Ambitious development efforts started in the 1980s in the Swedish public administration, in the form of a project led by the Expert Group for Public Economics (ESO) with the participation of experts from the Swedish Agency for Public Management and Swedish researchers. The project resulted in a series of reports on productivity growth and various methodological issues. However, after the publication of the last ESO reports in the early 1990s, government ministries and agencies in general seem to have relaxed their efforts to develop measures and indicators. Nevertheless, an extensive reorientation of the governance of individual agencies was initiated, on the assumption that precisely these kinds of measures and indicators could be produced at the agency level. Management by objectives as applied to and within agencies required the development of monitorable objectives that could be defined in terms of quantities and time.

From the fiscal year 1992–93 and onwards, all agencies were required to submit annual reports including detailed information about all the agency's essential objectives and tasks. The initial response was slow, but in a follow-up of annual reports for 2001 in eleven areas, Murray (2002) concluded that "the reporting of performance, costs, quality and productivity has improved considerably" (p. 201), even if some agencies failed to report productivity or performance in a systematic and transparent

manner. However, the Government Offices appear to have had limited interest in these reports and some agencies seem to have cut back on their level of ambition rather quickly.

Management by objectives was later introduced in municipalities as well. These had better hope than the government agencies of being able to evaluate their goal achievement as they could compare themselves with each another. This encouraged development efforts by SALAR, in particular to develop comparable measures for costs, production and quality. Considerable progress has been made, even if much remains to be done.

However, a large gap exists between the statistical progress made in various sectors and the available statistics on which to base a comprehensive view of and strategic considerations concerning public sector development. The Government recently found that there is a great need to improve the ability to monitor the work of government agencies, particularly with respect to the quality of the services they deliver and the public's perceptions of them. The Swedish Agency for Public Management was therefore given instructions to analyse the possibility of assembling a basis for coherent and systematic monitoring of productivity, quality and efficiency in the public sector. The agency concluded that there is great scope for improvement and that efforts should primarily focus on developing volume and quality indicators for the public sector in the national accounts (Statskontoret, 2011:13).

This conclusion is not entirely obvious. The very fact that work on developing national accounts for the public sector has not progressed further – more than twenty years after the major development drive by ESO and the Swedish Agency for Public Management – should perhaps give pause for thought.

Although the national accounts have been and are the backbone of economic statistics, the system of national accounts has considerable limitations and in certain cases may act as a straitjacket constricting the development of statistics. In 2008, French President Nicolas Sarkozy appointed the 'Stiglitz Commission', which brought together a large number of prominent economists under the leadership of Joseph Stiglitz, Amartya Sen and Jean-Paul Fitoussi to consider how to make progress in macroeconomic statistics. The Commission noted that the system of national accounts was constructed in another era and that it has difficulty describing the modern economy correctly. In

particular, the shift of the economy towards services poses major challenges in that the focus moves from quantity to quality, which in general is much more difficult to measure. The shift towards services is a phenomenon affecting the entire economy, not just the services sector, and is particularly pronounced in Sweden (see Bergström, 2012; Lagerqvist, 2012; Lodefalk, 2010). This makes it generally difficult to distinguish between volumes and values and between real price changes and inflation. Measurement problems are particularly severe in public sector services – a sector whose significance has been transformed since the system of national accounts was launched after the Second World War.

The Stiglitz Commission also deemed it essential to develop volume and quality measures for public services in the national accounts. But the Commission did not expect that this would suffice. – They noted that “time has come to adapt our system of measurement of economic activity to better reflect the structural changes which have characterized the evolution of modern economies” (Stiglitz et al. 2009, p. 11). The Commission’s main conclusion, therefore, was that macro statistics should be broadened, and focus not on just one measure – GDP – but on a set of different indicators. It also recommended a rebalancing of resource inputs. What is most important is not to measure the production volumes, but rather the benefit to the final consumers, i.e. the households. Data collection should therefore concentrate on areas such as income, consumption, quality of life, distribution and sustainability.

It is against this backdrop this anthology wishes to contribute to the discussion on ongoing efforts to develop macro indicators for public sector productivity, performance and effects. The anthology begins with an overview by Harald Edquist of the work conducted in Sweden and internationally on how national accounts can be developed to measure public sector productivity, especially in education and health care. The chapter contains a brief review of the Swedish studies conducted by ESO in the 1980s and 1990s. These studies were groundbreaking and have provided an important foundation for the systems that Eurostat uses to measure volume and productivity growth in the public sector. As regards other international development efforts, Edquist refers in particular to experiences and discussions in the United Kingdom, which is the country that has made most progress in introducing new methods for measuring productivity growth in the public

sector. Edquist discusses the principles proposed, but also points to the great difficulties this work encounters, particularly in adjusting for quality development.

In Chapter 3 Magnus Arnek outlines an approach that is not tied to the system of national accounts. Instead, the goal here is to create macro indicators by using the micro indicators that happen to be available. These cost, performance and quality measures can be obtained from various sources. As previously mentioned, in recent years a considerable amount of such data has been generated especially in the local government sector. The measurements are generated to both manage the organisation's own activities and to manage and monitor services procured or paid for completely or in part by customer choice systems (for example, pupil allowance and dental care insurance). Macro indicators can be constructed using this data without the need to be fully consistent with the national accounts and may, therefore, be easier to customize to different needs. In addition to complementing the national accounts with new indicators, it is possible that the freer forms might stimulate the development of statistical methods that, in the long term, will lead to improved national accounts, for instance through the compilation of data that is available from agencies but is not used for statistical purposes. In the chapter, Arnek provides an overview of international experiences of producing such micro indicators using a variety of models. This chapter is an appetizer to a larger ESO study he is currently conducting that aims to develop macro indicators using Swedish micro data.

The next two chapters discuss techniques and data that can be used to follow the welfare and quality of life effects of publicly financed activities at the macro level. The earlier ESO studies showed how difficult it is to interpret productivity measures in health and medical care without taking into account that medical and health technology advances promoting increased survival and, hopefully, improved health (quality of life) can be cost-driving. In Chapter 4 Mikael Svensson and I discuss the possibility of using quality-adjusted life years as the basis for monitoring quality development at macro level in health and medical care. We note that such measurements have already been conducted at the regional level in Sweden and should, only with a limited development effort, be possible also at the national level.

Care of the elderly is another major welfare area. There is also a well-recognised need here for gaining an understanding at national

level of how agencies' and authorities' activities, and particularly those of the municipalities, impact the users' quality of life. For this reason, the National Board of Health and Welfare has been instructed by the Government to conduct a number of user surveys. In Chapter 5 Mats Bergman and Sofia Lundberg discuss whether and in what way the results of these surveys and other statistics can be used to follow developments in unit costs and quality in various areas of municipal elderly care. One conclusion is that the customer satisfaction index based on the National Board of Health and Welfare user surveys is a good overall measure of care quality. However, it is not a perfect measure as it is difficult, for example, to determine how a change in the index should be interpreted and valued. But other possible quality measures that are discussed also have shortcomings. For example, mortality and the number of fall injuries are difficult to use since they to a certain extent are related to the general health status of the older population and to a lesser degree to the quality of elderly care.

Finally, in Chapter 6, Harald Edquist and I propose several directions for future work. Firstly, productivity measures in the public sector should be based on performance measures that are quality adjusted, which means that relevant measures for this must be developed. Secondly, national accounts should focus on developing performance and quality indicators for specific purposes, for example, education, health and medical care, and elderly care. Thirdly, Statistics Sweden should cooperate with other government agencies in developing methods for measuring performance and effects in relation to collective services such as roads, the administration of justice, correctional and fire services. Fourthly, more macro indicators than those based on the national accounts should be used to measure the public sector productivity.