Efficiency

Anna Coote and Andrew Percy

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Efficiency is usually measured in terms of the ratio between inputs and outputs: the greater the amount of useful output per unit of input, the more efficient the process is deemed to be. In public policy, inputs can refer to expenditure of resources, such as money or labour, as well as government regulation. Outputs refer to the implementation of legislation and the delivery of specific transfers and services, such as social care or clinical procedures. Outcomes refer to the broader and longer-term impacts on individuals (such as poverty and mortality) or on social distributions (e.g. levels of inequality)[1]. They will be influenced by how services interact with each other, as well as by a wide range of social, cultural and economic conditions. Given these complexities, measures of efficiency in the public sector are usually complex and contested.

Public services have often been accused of inefficiencies, which market theorists have attributed to lack of competition and the vested interests of bureaucrats and professions. These shortcomings have been used to justify introducing market rules into public services from the 1980s onwards. But competition between multiple providers, customer choice for service users and conventional cost-efficiency criteria for measuring success have largely failed to improve outputs, let alone outcomes. These failings have been greatly exacerbated by public spending cuts, with decisions often predicated on the notion that simply reducing inputs is equivalent to increasing efficiency. Getting 'more for less' by cutting staff or increasing workload to compete in a quasi-marketplace has generally proved to be self-defeating[2].

Market processes can deliver output inefficiencies in many public services. Private contracts tend to be inflexible and limit the ability of public authorities to improve services and respond to changing demands[3]. Transaction costs are often higher for both consumers and providers, not least because a for-profit system extracts funds to pay dividends to shareholders. Public sector organisations can keep costs down in ways that cannot be achieved by competing commercial organisations – for example, through sharing administrative, purchasing and research functions, by avoiding duplication and by working together to achieve shared goals[4]. Moral hazards are encountered when profit incentives combine with unequal knowledge in markets. For example, private medical providers may have profit-related incentives to undertake unnecessary medical interventions, while patients know too little to judge whether they are right or wrong[5].

Turning to outcomes efficiency, there are further advantages to a public – rather than market-based - system in many service areas. Where collective activities are intended to serve the public interest, receive funding from public sources and share a democratic framework, they are, in theory at least, better able to interact in mutually beneficial ways – and they can be co-ordinated to do so by public authorities. One example is where schools encourage healthy eating and active pursuits, making people healthier; others are where bus services enable people to get to work, or where high quality childcare helps children to get more out of primary education.

Definitive studies of the efficiency of public services are rare, and most that do exist focus on healthcare and cost-efficiency. A 2016 study compared spending on health care and average life expectancy in OECD countries. It found the USA, which is a mainly market-based system, outspent the UK in 2014 by the equivalent of £6,311 per person, compared with £2,777, yet had an average life expectancy at birth of 78.8 years, compared with 81.4 in the UK[6].

Other studies have found that, while the UK spends a smaller proportion of GDP on healthcare than other European countries, the NHS is one of the more efficient and cost-effective healthcare systems in the world[7].

Where efficiency is assessed in narrow output terms, calculations overlook the multiple dimensions of value, the many ways in which value is experienced and how it accrues. The concept of 'social return on investment' (SROI) has been developed over the last decade and adopted by the UK government in the 2012 Social Value Act, which instructs public service commissioners to consider how to 'improve the social, economic and environmental well-being of the relevant area'[8].

Applying social value analysis to assessing service efficiency means taking account of longer-term, indirect effects as well as short-term direct ones. This does not sit easily with a market-based system. For example, if staff delivering meals on wheels to people who are housebound take time to sit and chat with them, this may reduce their sense of social isolation and generally improve their wellbeing, but it will increase costs by demanding additional staff time. If a school opens up as a community centre at weekends, it may improve opportunities for local residents to get together and help each other in various ways with positive long-term effects, but it will also eat into the school budget. Some forms of social value take years to accumulate, with no immediate tangible benefits; often, they accrue in ways that do not return dividends of any kind to the organisation that made the investment in the first place. Nevertheless they can yield substantial returns on investment over time, which are routinely overlooked because they are hard to measure, not because they lacks value.

There is clearly a disconnect between conventional ways of assessing efficiency on the one hand, and notions of value that are anchored in whole systems and human relationships, on the other. It has prompted many to challenge the dominance of economic growth as an indicator of national progress and the norms of cost-efficiency accounting. Some countries have begun to measure human wellbeing, alongside GDP (gross domestic product), as an indicator of national progress. Michel Bauwens, founder of the Peer-to-Peer Foundation (P2P) has called for a major 'Value Shift': instead of rewarding 'extractive' practices 'that enrich some at the expense of the others', we should reward 'generative' practices that enrich the social and environmental resources to which they are applied[9]. The efficiency of universal basic services may best be judged from this perspective – by how far they lead to outcomes that renew local assets, safeguard planetary boundaries and nurture human flourishing.

End Notes

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[2]Wahl, A. (2011). The Rise and fall of the welfare state. London: Pluto Press, p. 122-123.

[3]Raco, M. (2013). 'The New Contractualism, the Privatization of the Welfare State, and the Barriers to Open Source Planning. Planning Practice & Research, 28 (1): 45-64.

[4]LGA. (2012). 'Services shared: costs spared?'. https://www.local.gov.uk/sites/default/files/documents/services-shared-costs-spa-61b.pdf; OECD. (2015). 'Building on Basics, Value for Money in Government'. Paris: OECD Publishing, p. 145-163.

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[8]DCMS. (2018). The Public Services (Social Value) Act 2012: Introductory guide, p.2

[9]Bauwens, M. and Niaros, V. (2017). 'Value in the Commons Economy: Developments in open and contributory value accounting'. Heinrich Boll Foundation and P2P Foundation, p.3.