



# Public Spending Under Labour

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# Public spending under Labour

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## Summary

- Total public spending is forecast to be 48.1% of national income in 2010–11, up by 8.2% of national income from the 39.9% Labour inherited from the Conservatives. This would be the highest level of public spending as a share of national income since 1982–83.
- Most industrial countries have increased public spending as a share of national income since 1997. But between 1997 and 2007 – prior to the financial crisis – the UK had the 2nd largest increase in spending as a share of national income out of 28 industrial countries for which we have comparable data. Over the period from 1997 to 2010 – including the crisis – the UK had the largest increase. This moved the UK from having the 22nd largest proportion of national income spent publically in 1997 to having the 6th largest proportion spent publically in 2010.
- Spending on public services has increased by an average of 4.4% a year in real terms under Labour, significantly faster than the 0.7% a year average seen under the Conservatives from 1979 to 1997. This is largely due to increases in spending on the NHS, education and transport. Since 2000–01 public investment spending has increased particularly sharply and is now at levels not seen since the mid to late 1970s. Despite large increases in the generosity of benefits for lower income families with children and lower income pensioners social security spending has grown less quickly than it did under the Conservatives.
- Estimates from the Office for National Statistics suggest that public services have improved considerably over the period from 1997 to 2007 with measured outputs suggesting a one-third increase in the quantity and quality of public services. But this increase in measured public service outputs is less than the increase in inputs over the same period; in other words productivity has fallen. The relative price of these inputs has also risen, so we find that the “bang for each buck” that we get from spending on public services (output per pound spent, adjusted for whole economy inflation) has fallen more than productivity.
- If the Government had managed to maintain the “bang for each buck” at the level it inherited in 1997, it would have been able to deliver the quantity and quality of public services it delivered in 2007 for £42.5 billion less. Alternatively, it could have improved the quality and quantity of public services by a further 16% for the same cost. But perhaps service quality has improved in ways not captured by the ONS’s measures. Or perhaps we were to bound to see diminishing returns to additional spending when it was increasing so rapidly. To the extent that additional spending boosts output fully only with a lag, we may not yet have seen the full benefit.

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## 1. Introduction

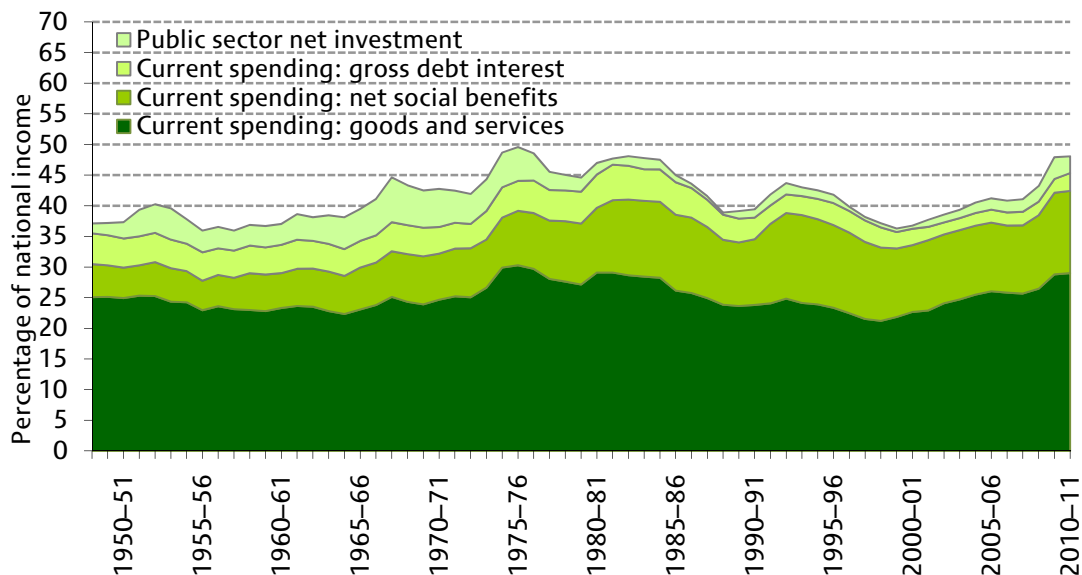
Even more than in previous elections, the appropriate size of the state – measured by public spending as a share of national income – is a key issue. This briefing note describes the trends in public spending since Labour came to office in 1997. Section 2 compares the levels of public spending under Labour to date with historical levels and spending in other OECD countries. Section 3 compares the growth in the main components of public spending seen under Labour, both before and after the start of the financial crisis, with growth seen under previous governments. Section 4 considers productivity in public service provision, and how the increased spending under the Labour government compares with changes in measured output.

## 2. Total public spending

### 2.1 UK public spending over time

The size of the state, measured by public spending as a share of national income, is shown in Figure 2.1. Since the Second World War, total public spending (the sum of current spending and public sector net investment) has fluctuated between 36.0% and 49.6% of national income – the low being achieved in 1957–58 and the high in 1975–76. The current government inherited a level of 39.9% in 1996–97, from which it subsequently fell to 36.3% in 1999–2000, the lowest level since 1957–58. Since then public spending has increased, reaching 47.9% of national income in 2009–10. Under current government projections, public spending is set to increase further to 48.1% of national income in 2010–11 – the highest level of spending since 1982–83.

Figure 2.1. Public spending since 1948–49



Note: Projections are from 2010 Budget. Current spending on goods and services includes depreciation.

Sources: Data from the Office for National Statistics. The data underlying this figure, and full details of the sources, can be downloaded from [http://www.ifs.org.uk/ff/lr\\_spending.xls](http://www.ifs.org.uk/ff/lr_spending.xls).

Also shown in Figure 2.1 is the breakdown of public spending into current spending (by component) and public sector net investment. Current spending on goods and services reached 29.0% of national income in 2010–11, the highest level since 1981–82 and close to the all time high

of 30.3% achieved in 1975–76. This is largely an unintended consequence of spending plans that were set in cash terms in the October 2007 Comprehensive Spending Review (CSR). These turned out to comprise a larger share of national income than planned when the financial crisis and associated recession reduced national income below what was forecast. (Weaker-than-expected real economic growth and the lower-than-expected price level both acted to reduce nominal national income below what was forecast.) The lowest level of spending on goods and services since the Second World War was in 1998–99 at 21.2% of national income.

Spending on social benefits has been on a generally increasing trend for much of the period since the Second World War as the coverage and generosity of benefits has increased, and as average life expectancies – in particular at older ages – has increased. Spending on social benefits was at a low of 4.8% of national income in 1955–56 and at a high of 14.3% in 1993–94. The 13.4% reached in 2010–11, a result of rising unemployment during the recession, is the highest level since 1995–96.

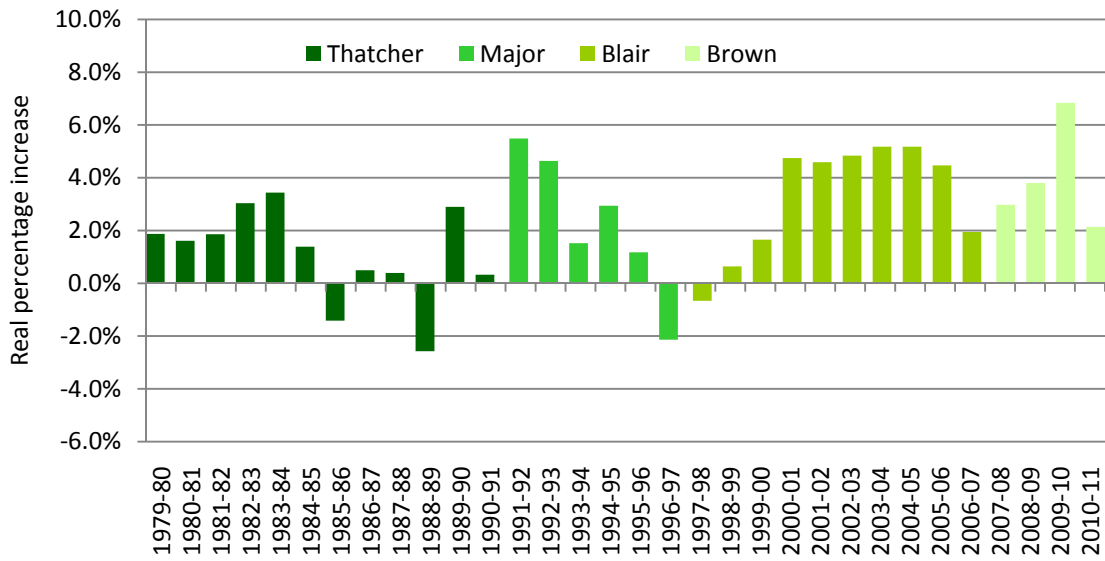
Public sector net investment reached an all-time high of 7.3% of national income in 1967–68. It had fallen to 0.7% by the time Labour came to power and then dropped further to 0.5% by 2000–01. Since then the government has increased it to the 2.7% expected in 2010–11, the highest level since 1977–78 (discounting 2009–10 in which investment was unusually high as the government brought forwards some investment spending from 2010–11 as part of its fiscal stimulus package). The fact that public sector net investment has been so much lower over the last 20 years than in the 1970s reflects in large part the privatisation of utilities and the decline of social housing.<sup>2</sup>

Figure 2.2a shows the year-on-year increase in total public spending for each year since 1979–80, split by Prime Minister, after taking into account the effects of economy wide inflation (henceforth referred to as real terms increases). Figure 2.2b shows the equivalent figure for growth in spending on public services (defined here as total public spending less spending on welfare payments and debt interest). Between 1979 and 1984, public spending grew due to a combination of the implementation of the Clegg public pay awards, keeping to the commitment made to NATO by the previous Labour administration to increase defence spending by at least 3% a year until 1985 and also weak economic performance which increased spending on social security benefits. The following four years to 1989 saw negative or low growth in total spending, in part due to strong economic performance reducing spending on social security benefits. The early years of John Major's premiership saw large increases in public spending, in part due to a return to rising unemployment but also due to the large increases in NHS spending allocated at the time of the internal market reforms. Spending then grew less quickly in 1995–96 and was cut in real terms in 1996–97 (as part of the then Chancellor Ken Clarke's fiscal consolidation following the recession of the early 1990s). During Margaret Thatcher's premiership public spending grew in real terms by an average of 1.1% a year, while during John Major's premiership it grew by an average of 2.2% a year. Over both periods spending on public services grew by an average of 0.7% a year.

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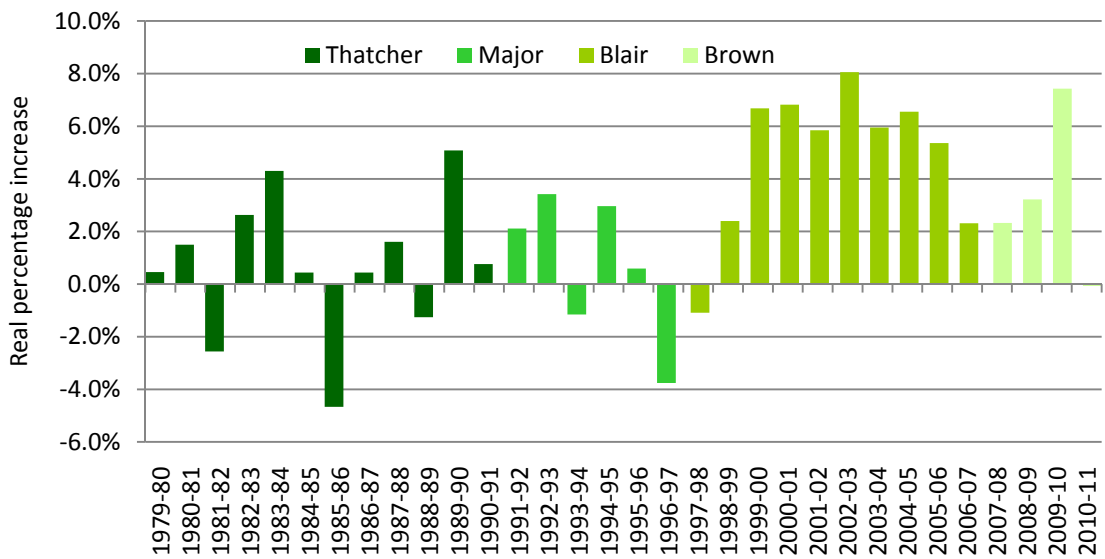
<sup>2</sup> For more information on the changes in public sector net investment during the 1980s and 1990s, see T. Clark, M. Elsby and S. Love, 'Trends in British public investment', *Fiscal Studies*, 2002, vol 23, pp.305-42

Figure 2.2a. Annual increases in total public spending, by Prime Minister since 1979–80



Notes: Projections are from 2010 Budget.  
Sources: As Figure 2.1.

Figure 2.2b. Annual increases in spending on public services, by Prime Minister since 1979–80



Notes: Spending on public services defined as total public spending less social security spending and public sector gross debt interest payments. Projections are from 2010 Budget.  
Sources: As Figure 2.1.

Between April 1997 and March 2000, there were relatively small increases in public spending. This was due to a combination of relatively low planned increases in spending on public services in 1997–98 and 1998–99 (combined with underspends on departmental spending in both of those

years),<sup>3</sup> an underspend by government departments in 1999–2000 and strong economic growth putting downward pressure on social security and debt interest payments throughout these three years.

Between April 2000 and March 2006 there were large increases in total public spending, averaging 4.8% a year in real terms. Spending on public services increased at an average rate of 6.4% a year over the period from April 1999 to March 2006, and there were also large increases in the generosity of transfer payments aimed at lower-income pensioners and families with children. Spending was planned to grow at a lower rate from 2006–07 as the 2004 Spending Review and, in particular, the 2007 CSR were tighter than their predecessors. However, the UK entered a recession in the second quarter of 2008, resulting in higher spending on social benefits and thus faster increases in total spending. The low inflation that accompanied the downturn also meant that the cash spending plans set in the 2007 CSR resulted in larger real increases in departmental spending than had been previously planned, in particular in 2009–10.

The combination of relatively low increases in public spending between April 1997 and March 2000 and the larger increases in spending between April 2000 and March 2006 means that over the 14 years of Labour governments between 1997–98 and 2010–11 as a whole, total public spending has grown in real terms by an average 3.4% a year and spending on public services has grown at an average rate of 4.4% a year. Thus in contrast to the experience under the Conservatives between 1979 and 1997 under Labour spending on public services has increased more quickly than spending overall.

## 2.2 International comparison of total public spending

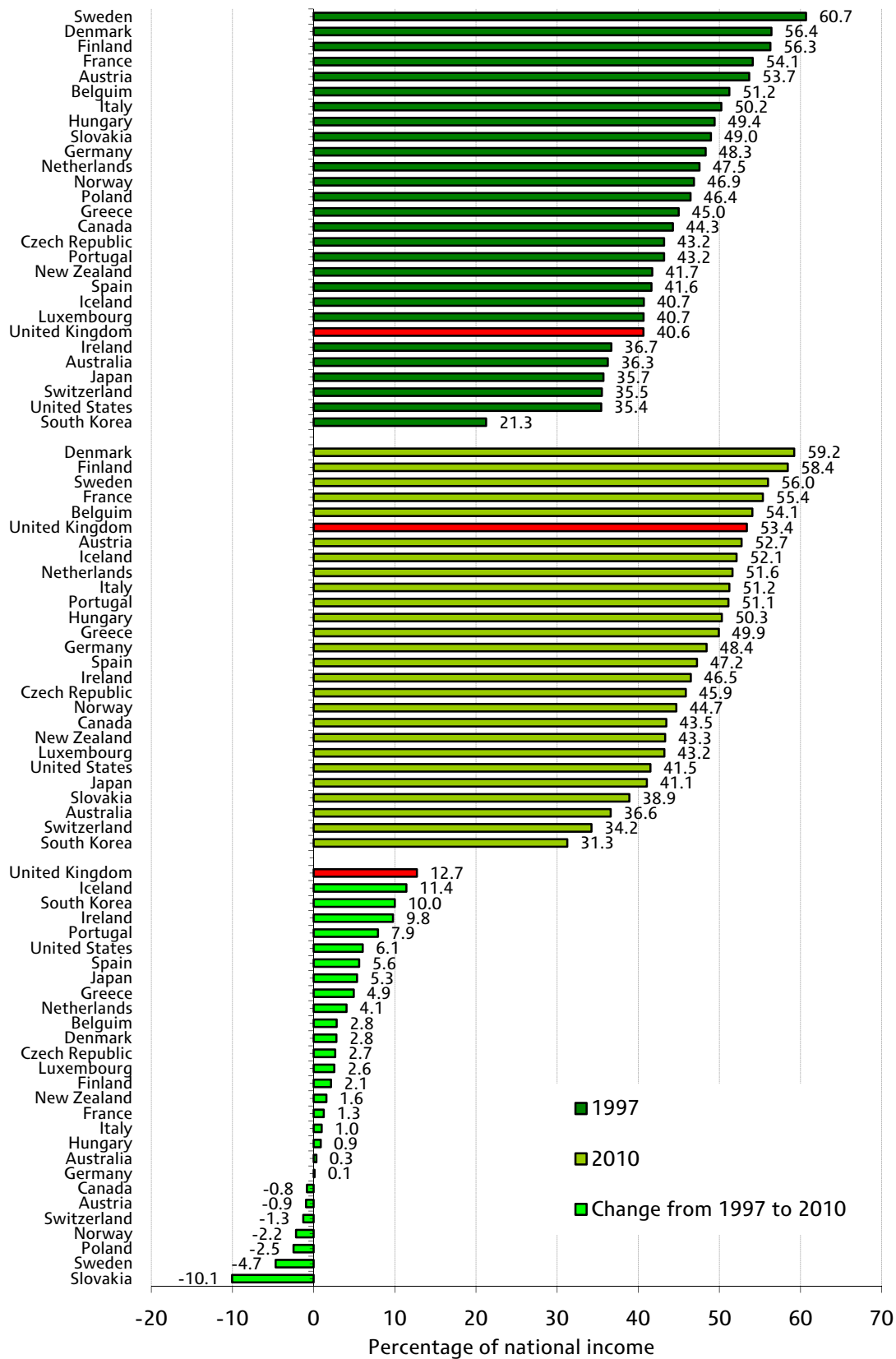
The period of Labour government from 1997–98 to 2010–11 has seen a relatively long period of sustained real terms growth in public spending. As mentioned above, on average over this period public spending grew by 3.4% a year in real terms. Figure 2.3 shows estimates of public spending as a share of national income across a number of OECD countries in both 1997 and 2010.<sup>4</sup> In 1997, out of the 28 countries for which we have comparable information, the UK had the 22<sup>nd</sup> largest level of public spending as a share of national income. Most countries have increased public spending as a share of national income since then but the increase in the UK has been the largest. As a result the UK is now estimated to have the 6<sup>th</sup> largest level of public spending as a proportion of national income.

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<sup>3</sup> For more details of underspends in 1997–98, 1998–99 and 1999–2000, see figure 3.6 of A. Dilnot, C. Emmerson and H. Simpson (eds), *The IFS Green Budget: January 2001*, Commentary no. 83, IFS, London, 2001.

<sup>4</sup> In order to compare figures across countries Figure 2.3 and Table 2.1 use a slightly different definition of public spending to that used in Section 2.1. The measure of spending shown is General Government Total Outlays.

Figure 2.3. General government total outlays



Sources: Annex Table 25, OECD Economic Outlook no.86, December 2009

(<http://www.oecd.org/dataoecd/5/51/2483816.xls>)

Table 2.1 lists the total outlay of the UK government as a share of national income, and the ranking of the UK relative to the 27 other OECD countries listed in Figure 2.3, for a number of years. The UK had the second largest increase in public spending as a share of national income between 1997 and 2007, with only South Korea (the country with the smallest proportion spent publically in 2010) seeing a larger increase. So even before the financial crisis began the increase in public spending since 1997 was large relative to that in other countries. As a result the UK moved from being the country with the 22<sup>nd</sup> largest proportion of national income spent publically to the country with the 12<sup>th</sup> largest. Between 2007 and 2010 all of the 28 countries saw an increase in public spending as a share of national income. This is mainly because the financial crisis and associated recessions experienced around the world led to increases in spending and depressed the cash size of most of these economies. The UK had the 4<sup>th</sup> largest increase in public spending as a share of national income between 2007 and 2010 – only Finland, Ireland and Iceland have seen larger increases – which meant that the UK had the 6<sup>th</sup> highest proportion spent publically in 2010, and the largest increase in spending as a share of national income over the period from 1997 to 2010.

**Table 2.1. International comparisons of general government total outlays**

| General government total outlays | % of GDP | UK rank (out of 28)      |
|----------------------------------|----------|--------------------------|
| 1997                             | 40.6     | 22 <sup>nd</sup> largest |
| 2001                             | 39.9     | 19 <sup>th</sup> largest |
| 2005                             | 44.1     | 13 <sup>th</sup> largest |
| 2007                             | 44.1     | 12 <sup>th</sup> largest |
| 2010                             | 53.4     | 6 <sup>th</sup> largest  |
| Increase 1997 to 2007            | 3.5      | 2 <sup>nd</sup> largest  |
| Increase 2007 to 2010            | 9.2      | 4 <sup>th</sup> largest  |
| Increase 1997 to 2010            | 12.7     | 1 <sup>st</sup> largest  |

Notes: The 28 countries included are those listed in Figure 2.3.

Source: As Figure 2.3.

### 3. Public spending by function

Since Labour came to power, there has been a relatively long and sustained (by historical standards) increase in real terms public spending. However, this extra spending has not been evenly shared across the functions of government. This section looks at trends in various components of public spending to see which areas have seen the largest increases under Labour and how these increases compare with those delivered by the previous Conservative governments.

Figure 3.1 shows how the composition of public spending changed over the period the Conservatives were last in office (comparing 1978–79 to 1996–97), over the period since Labour came to power but before the financial crisis (comparing 1996–97 to 2007–08), and over the whole period since Labour came to power (comparing 1996–97 to 2010–11). It shows that under the Conservatives spending on the NHS increased (both as a share of national income and as a share of public spending), spending on education fell as a share of national income but remained at 12% of total spending, while spending on defence and transport fell (both as a share of national income and as a share of public spending).

Under Labour, spending on health and education has increased, from 10.1% of national income in 1996–97 to 14.8% in 2010–11, an increase from 25.3% of public spending to 30.7%. This reflects the government's decision to allocate significantly more resources to the NHS and to education in



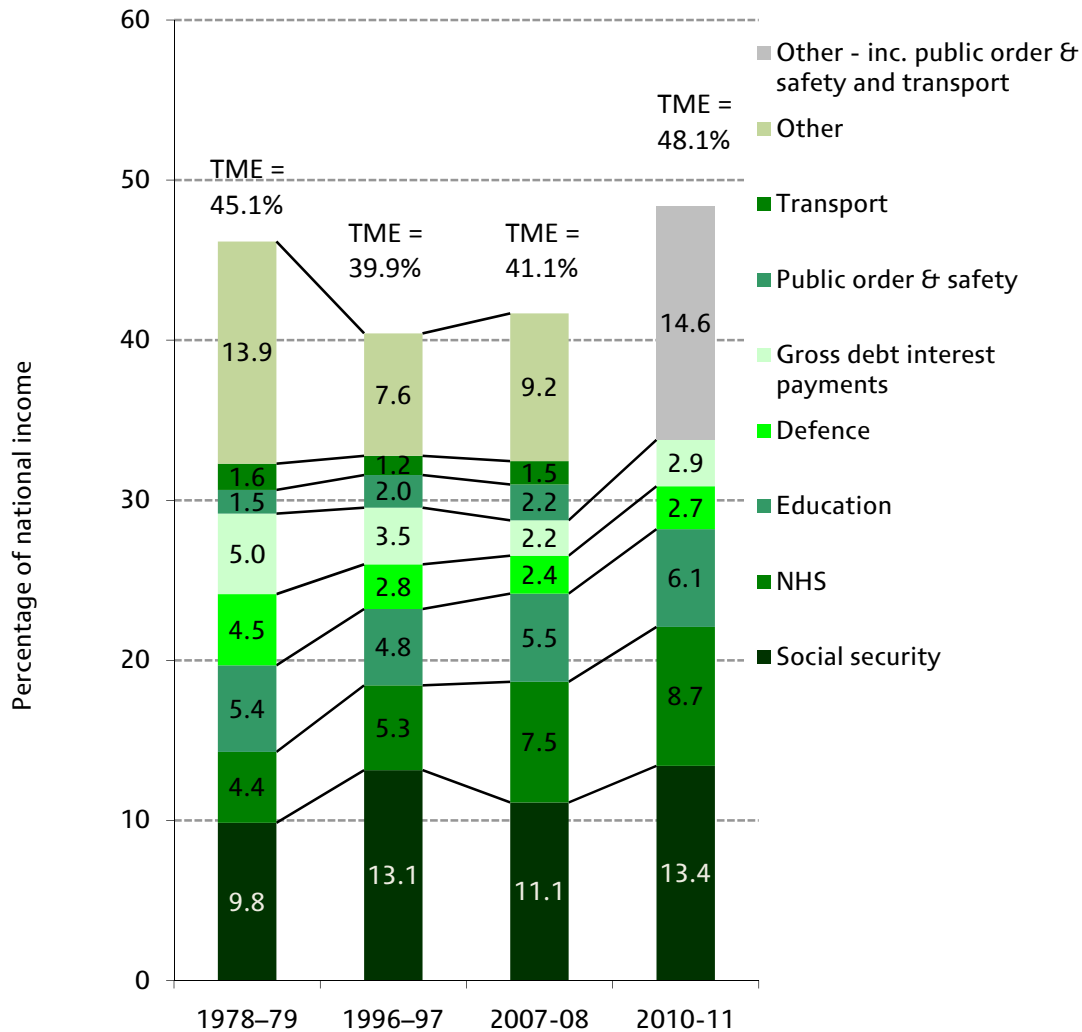
each of the five reviews of public spending that it has carried out to date. Within the education budget, further education and spending on pre-school children have benefitted from relatively large increases in spending with higher education receiving much lower increases.<sup>5</sup> Labour, like the Conservatives, increased spending on public order and safety as a share of national income between 1996–97 and 2007–08; but unlike the Conservatives they also increased spending on transport as a share of national income.

Low interest rates and the budget surpluses recorded early in Labour's period in office reduced debt interest payments as a share of national income and as a proportion of public spending between 1996–97 and 2007–08. However, as a result of the financial crisis and rapid increase in government borrowing, spending on debt interest is forecast to increase to 2.9% of national income in 2010–11. Spending on social benefits absorbed 13.1% of national income (33.0% of public spending) in 1996–97 but only 11.1% of national income (27.1% of spending) in 2007–08. The savings from falling unemployment over this period were partially offset by the increased generosity of transfer payments to lower-income pensioners and families with children. Between 2007–08 and 2010–11 spending on social security is forecast to increase to 13.4% of national income, largely as a result of the recession, but the increase in total spending over this period means the share of spending accounted for by social security only increases slightly to 27.9%.

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<sup>5</sup> See Figure 4.8 and surrounding text of R. Crawford, C. Emmerson and G. Tetlow (2009), *A survey of Public Spending in the UK*, Briefing Note No. 43, London: Institute for Fiscal Studies (<http://www.ifs.org.uk/publications/1791>).

Figure 3.1. Changing composition of UK public spending



Note: Figures are percentage of national income. "Transport" and "Public Order and Safety" are included in "Other" in 2010-11 as there are no forecasts for spending on these functions.

Source: As Figure 2.1.

### 3.1 Trends over time

The real average annual rates at which public spending in each of seven main areas have increased over time are shown in Table 3.2. Since Labour came to power in 1997 there have been particularly large average annual increases in spending on the NHS (5.7% a year), education (3.9% a year) and transport (4.1% a year up to March 2009). These areas of public spending received much smaller average annual increases during the 18 years of Conservative governments from 1979 to 1997 (3.2%, 1.5% and 0.4% respectively). Spending on defence declined under the Conservatives but has been increasing under Labour, largely due to military operations in Afghanistan and Iraq. Social security spending has grown less quickly under Labour (averaging 2.2% a year) than it did over the period from 1979 to 1997 (when it averaged 3.8% a year in real terms), while spending on net debt interest payments has risen slightly faster.

As might be expected, the growth in spending on individual areas has been quite different between the period under Labour before the financial crisis and the period since. Spending on the NHS and education still increased by more between April 2008 and March 2011 than it did under the Conservatives, but increased at a lower rate than under Labour up to 2008. Since national income

fell over this period, the real increases meant that spending on these areas still increased as a share of national income. Social security spending grew much faster between April 2008 and March 2011 than under Labour before 2008 and the previous Conservative governments (5.3% a year in real terms, compared with 1.4% and 3.8% respectively), largely as a result of the increased unemployment during the recession. The rapid increase in government borrowing as a result of the financial crisis and recession meant that spending on debt interest payments has increased by 8.3% a year between April 2008 and March 2011, a sharp contrast to the 1.4% a year fall in spending on this area that had been seen under Labour prior to 2008.

Under Labour since 1997 there have been large average annual increases in spending on public services as a whole – 4.4% a year in real terms, compared with just 0.7% a year under the Conservatives. This was slightly faster during their period in office before the financial crisis (4.6% a year) compared with after (3.5% a year), when increases in spending on social security and debt interest payments took up a larger proportion of the increases in total spending. For more detail on how public spending on these functions has evolved over recent decades and how this compares internationally see R. Crawford, C. Emmerson and G. Tetlow, ‘A survey of Public Spending in the UK’, *IFS Briefing Note BN43*, 2009.

**Table 3.2. Increases in various components of public spending**

|   | Average annual real increase                        |  |  |  |
|---|---|--|--|--|
|   | Conservative years<br>(April 1979 to<br>March 1997) | Labour years<br>(April 1997 to<br>March 2011) <sup>b</sup> | Labour years pre<br>Crisis (April 1997<br>to March 2008) | Labour years post<br>Crisis (April 2008 to<br>March 2011) <sup>b</sup> |
| Social security                                     | 3.8   | 2.2  | 1.4  | 5.3  |
| NHS   | 3.2   | 5.7  | 6.3  | 3.7  |
| Education   | 1.5   | 3.9  | 4.3  | 2.4  |
| Defence   | -0.5  | 1.8  | 1.4  | 3.0  |
| Public order and safety                             | 4.0   | 3.8 <sup>b</sup>   | 3.8  | 4.5 <sup>b</sup>   |
| Debt interest payments                              | 0.2   | 0.6  | -1.4   | 8.3  |
| Transport   | 0.4   | 4.1 <sup>b</sup>   | 4.8  | -3.9 <sup>b</sup>  |
| Total spending on<br>“public services” <sup>a</sup> | 0.7   | 4.4  | 4.6  | 3.5  |
| TME, of which:                                      | 1.5   | 3.4  | 3.2  | 4.2  |
| Net investment                                      | -5.0  | 12.7 <sup>c</sup>  | 13.8   | 8.7 <sup>c</sup>   |
| Current spending                                    | 1.7   | 3.1  | 2.9  | 4.0  |
| <i>Note: national income</i>                        | 2.2   | 2.1  | 2.9  | -2.5   |

Notes: Current spending includes depreciation. <sup>a</sup> Spending on public services is TME less social security spending less gross debt interest payments. <sup>b</sup> Figures for transport and public order and safety only go to March 2009. <sup>c</sup> The figures for net investment are influenced by the government bringing forward some planned investment from 2010–11 into the previous two years as part of their fiscal stimulus package.

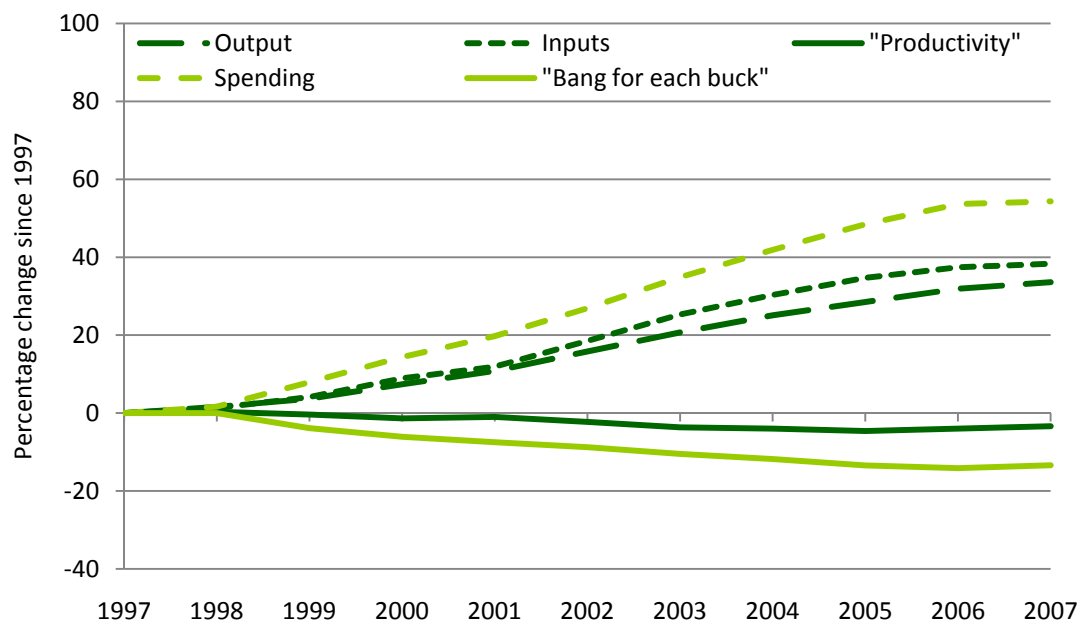
## 4. Productivity in public service delivery

An important question when considering public service spending and how it has changed over time is what taxpayers are actually getting for their money. Have the increases in public spending of recent years led to an increase in the quantity and/or the quality of the service enjoyed by the public? Measuring productivity in the public sector is, however, notoriously difficult. There is often no market for public services, and so there is no market price at which to value the output of the services. The Office for National Statistics’ UK Centre for the Measurement of Government Activity (UKCeMGA) has attempted to measure productivity in the public sector by comparing the output of public services (quantity, adjusted for quality where possible) with the inputs (spending, after

making an allowance for pay and price increases).<sup>6</sup> However for some public services, for instance defence and the police, measuring the quantity of ‘output’ is still too difficult and so the output is simply assumed to be equal to the inputs (which for the purposes of the national accounts was assumed to be the case for all public services prior to 1998).

Figure 4.1 shows the UKCeMGA estimates of input, output and productivity growth for total public services between 1997 and 2007, as well as estimates of real spending growth. The spending line shows how much spending on public services (measured here by General Government Final Consumption Expenditure) has risen in real terms (specifically after economy-wide inflation): 54.3% between 1997 and 2007 – an average increase of 4.4% a year. However rising pay and prices relative to the general level of prices in the economy means that inputs into public services have gone up by less than this, an average increase of just 3.3% a year. The output line is an estimate of the quantity of public service output, adjusted for changes in the quality of that output where possible. This increased by 33.6% between 1997 and 2007 – an average increase of 2.9% a year – and so the quantity and/or quality of public services was clearly higher (by about one-third) by the end of this period. However, productivity measures output over inputs, and since outputs have increased by slightly less than inputs over this period, productivity in the public sector is estimated to have fallen. Productivity growth is estimated to have been positive only in 1998, 2001, 2006 and 2007, and by 2007 productivity is estimated to have been 3.4% lower than it was in 1997 (equivalent to an average annual fall in productivity of 0.3%).

Figure 4.1. Total public service output, inputs, spending, productivity and efficiency estimates, 1997–2007



Notes: “Productivity” is outputs over inputs. “Bang for each buck” is output over spending, where spending is General Government Final Consumption Expenditure (GGFCE) deflated by the GDP deflator.

Source: Authors calculations based on ONS UKCeMGA, *Total public service output and productivity*, June 2009 (<http://www.statistics.gov.uk/articles/nojournal/TotalPublicServiceFinalv5.pdf>) and ONS series NMRK, YBHA and AMI.

An alternative to thinking of productivity as output relative to inputs is to compare the output of public services with the amount spent on providing those services. This could be thought of as

<sup>6</sup> A description of the methodology used to estimate the productivity measure can be found in <http://www.statistics.gov.uk/cci/article.asp?ID=400>

giving a broader measure of how much “bang for each buck” the taxpayer is getting. Such an estimate is also included in Figure 4.1. Taking into account the fact that real spending on these public services grew by more than inputs (and therefore by more than outputs), the average “bang for each buck” (outputs over spending) is estimated to have fallen by 13.4% between 1997 and 2007 – an average fall of 1.4% a year. The only year between 1997 and 2007 in which the average “bang for each buck” of public service provision is estimated to have increased was 2007. Had “bang for each buck” in 2007 been at the same level as it was in 1997 then, according to these estimates at least, for the same level of spending 15.5% more could have been delivered. Alternatively the same quantity and quality of public services could have been delivered for £42.5 billion less spending. Of this £42.5 billion, £10.8 billion represents the decline in measured productivity (the fall in outputs divided by inputs) while the remaining £31.8 billion (numbers do not sum due to rounding) represents rising pay and prices relative to the general level of prices in the economy.

It should be borne in mind however that the extra inputs received may have improved the quality of the output in ways not measured by UKCeMGA. Furthermore had average public sector wages not been increased relative to private sector wages over the period from 2001 to 2007<sup>7</sup> then the quality of public services might have deteriorated as a result of difficulties in recruiting and retaining motivated, high performing, staff. It could also be the case that diminishing marginal returns result in every £1 of extra spending on public services delivering less output than the average pound spent. This does not imply that spending should be cut: as long as the benefits derived from the extra spending are greater than the cost then the spending is appropriate. It may also be the case that the impact of extra inputs on outputs only shows up fully with a lag – this could explain why productivity and “bang for each buck” have picked in the most recent one or two years. In particular the large increase in education spending on pre-school age children that has occurred under Labour will not yet have fed through to improved GCSE results (the measure of education quality used by UKCeMGA).

The Shadow Chief Secretary to the Treasury Phillip Hammond has compared measured productivity changes in the public sector with those on average in the private sector over the same period. On this basis Mr Hammond calculates that had public sector productivity kept pace with average private sector productivity over the period from 1997 to 2007 then by 2007 the same quantity and quality of public services could have been enjoyed for £60 billion less.<sup>8</sup> However there may be good reasons to expect productivity growth to differ between these two sectors, and indeed between different subsectors, as, for example, new technologies and management processes may boost productivity in some industries but not others. Similarly it may be harder to bring about productivity improvements in inherently more labour intensive sectors such as health and education. There are also other technical, but important, differences between the ONS’ measures of public and private sector productivity.<sup>9</sup>

The absence of data from before 1998 – or comparable data from other countries – makes it impossible to say whether Labour’s performance on public service productivity has been relatively impressive or disappointing.

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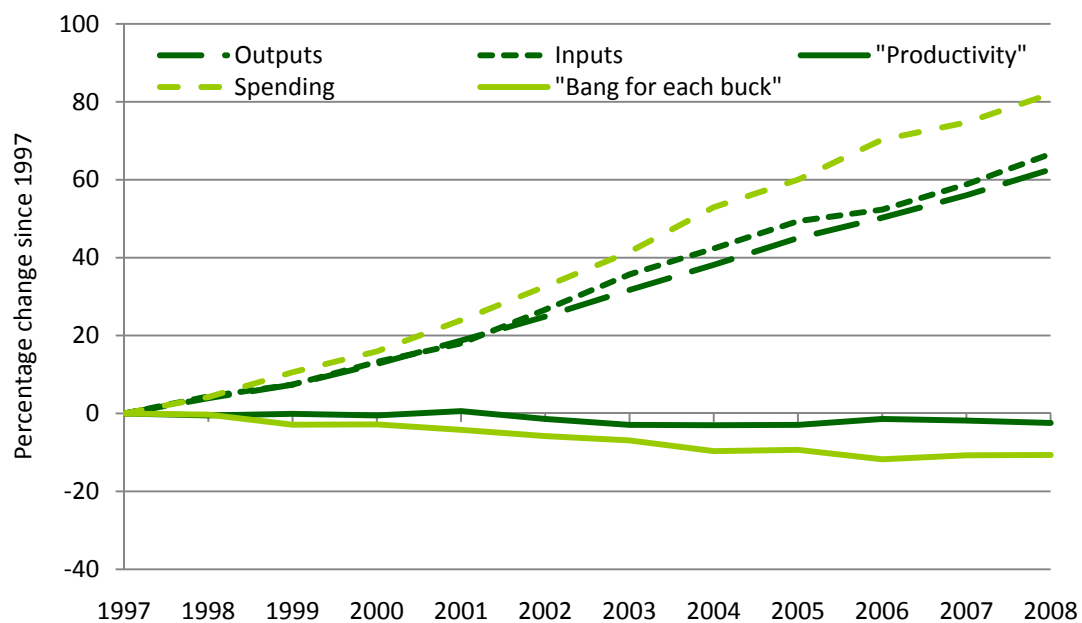
<sup>7</sup> See A. Bozio and P. Johnson (2010), *Public sector pay and pensions*, chapter 8 of R. Chote, C. Emmerson and J. Shaw (eds), *The IFS Green Budget: February 2010*, London: Institute for Fiscal Studies (<http://www.ifs.org.uk/budgets/gb2010/10chap9.pdf>).

<sup>8</sup> See P. Hammond, *Doing more with less*, Friday, November 27 2009 ([http://www.conservatives.com/News/Speeches/2009/11/Philip\\_Hammond\\_Doing\\_more\\_with\\_less.aspx](http://www.conservatives.com/News/Speeches/2009/11/Philip_Hammond_Doing_more_with_less.aspx)).

<sup>9</sup> See, for example, M. Phelps (2010), *Comparing the different estimates of productivity produced by the Office for National Statistics*, London: Office for National Statistics (<http://www.statistics.gov.uk/CCI/article.asp?ID=2391>).

Healthcare and education were the relative winners from Labour's largesse (as shown in Table 3.2). Figures 4.2 and 4.3 show UKCeMGA estimates of growth in spending, inputs, outputs and productivity for healthcare and education respectively, as well as the implied estimate for taxpayer "bang for each buck". Healthcare output rose rapidly over this period, at an estimated average annual rate of 4.5%, so the quality and quantity of public health provision did increase. However, since inputs grew by an average 4.7% a year over the same period, productivity in the provision of healthcare is estimated to have fallen by 2.4% between 1997 and 2008 an average annual decline of 0.2%. This is less than the measured decline for overall public service provision under Labour, as shown in Figure 4.1. Growth in spending, after taking into account economy-wide inflation, was faster than the growth in inputs which reflects the price of healthcare inputs rising more quickly than average. Estimated "bang for each buck" – outputs divided by spending – therefore fell more quickly than measured productivity over this period: by 2008 these figures suggest "bang for each buck" was 10.8% lower than in 1997. But again this decline was less than that seen for public services as a whole.

Figure 4.2. Public service output, inputs, spending, productivity and efficiency estimates, 1997–2007: Healthcare

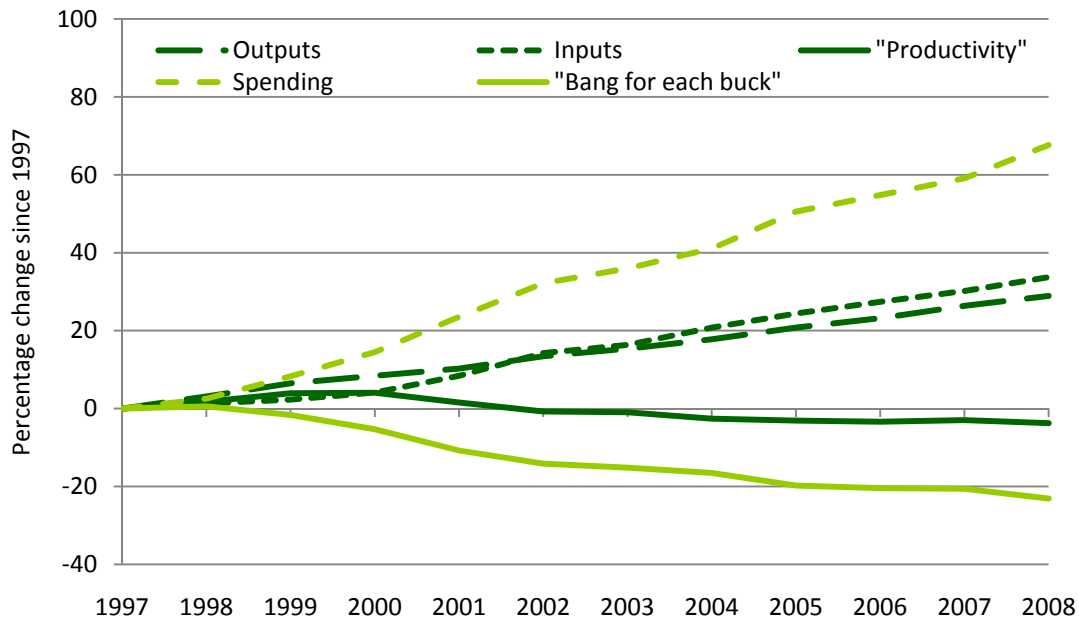


Source: ONS UKCeMGA *Public service output, input and productivity: Healthcare* (<http://www.statistics.gov.uk/articles/nojournal/healthcare-productivity-2010.pdf>), GDP deflators from ONS (calculated using series ABMI and YBHA)

Education also saw large increase in both inputs and outputs over this period, with estimated average growth of 2.7% and 2.3% a year respectively. So, again, the measures suggest that the quality and/or quantity of education provided by the public sector improved considerably over this period. Despite initial gains in productivity in education (output growth was higher than input growth between 1997 and 2000), productivity in 2008 is estimated to have been 3.8% lower in 2008 than in 1997 – equivalent to an average annual decline of 0.3%. This is a slightly bigger decline than measured productivity for public services as a whole: but education could be one area where the benefits of additional spending might take some years to be fully felt. Growth in spending, after taking into account economy-wide inflation, was considerably faster than the growth in inputs which reflects the price of education inputs rising much more quickly than average. As a result "bang for each buck" – outputs divided by spending – is estimated to have fallen

by almost one-quarter over this period. These figures suggest, therefore, a considerably larger decline in “bang for each buck” for education than for public services as a whole since Labour came to power.

Figure 4.3. Public service output, inputs, spending, productivity and efficiency estimates, 1997–2007: Education



Source: ONS UKCeMGA *Public service output, input and productivity: Education* (<http://www.statistics.gov.uk/articles/nojournal/education-productivity.pdf>), GDP deflators from ONS (calculated using series ABMI and YBHA)