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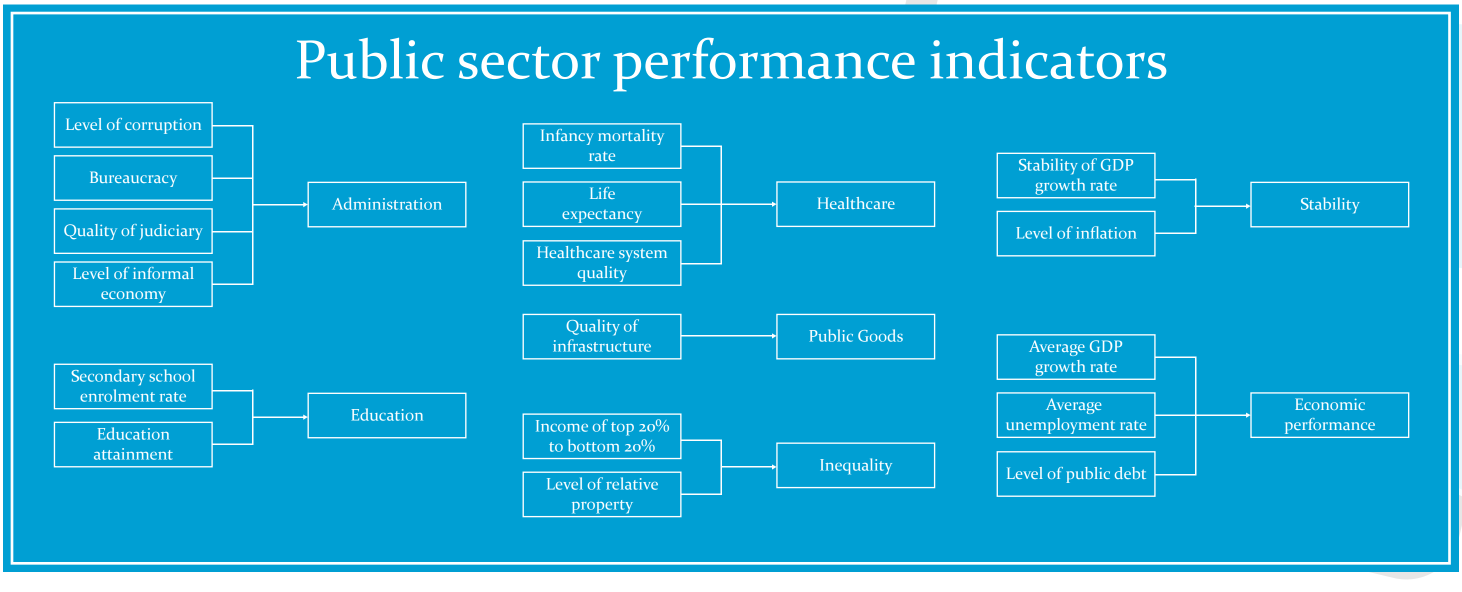
Public sector efficiency in post transitional countries in Europe

Research summary

The role of public sector has expanded greatly in the course of the previous century. Basic state programs such as provision of basic public goods (welfare, law and order enforcements, administration etc.) were complemented by state programs in education (primary, secondary and tertiary), retirement programs and active role in economy by fiscal and monetary instruments. All of this has lead to an increase in public expenditure during the 20th century, from 10 – 15% to 40 – 50% of GDP in most developed and middle income countries. These high public expenditures demand high public revenues through taxes, which lowers incentives for economic activities and can lower savings which can be detrimental for economic growth in the long run. It does not mean that all public programs are unnecessary, but if there are inefficiencies within the public sector, a lot of public resources would be wasted.

> The main goal of the research is to see whether there are public sector inefficiencies among transitional countries in Europe, a region with many similar traits but that has not been studies in this matter.

The analysis included 17 (post)transitional counties in Central and South Eastern Europe that are full members or candidate countries of the European Union. The EU accession and common history of socialist non market economies make strong points in evaluating the performance of their respective public sectors. Public sector efficiency is accessed by comparing public sector performance indicators (as output) to the level of public expenditures (as inputs). Public sector indicators evaluate outputs in areas where mainstream economic theory endorses role of the government: administration, healthcare, education, provision of public goods, inequality, growth and stability.



	Performance	Expenditure	Efficiency
Estonia	1.60	1.60	1.74
Latvia	1.15	1.15	1.23
Lithuania	1.21	1.21	1.37
Poland	1.12	1.12	1.06
Hungary	1.10	1.10	0.89
Czech Republic	1.29	1.29	1.20
Slovakia	1.14	1.14	1.35
Romania	0.89	0.89	1.03
Bulgaria	1.21	1.21	1.38
Croatia	1.05	1.05	1.01
Slovenia	1.28	1.28	1.15
Bosnia and Herzegovina	1.34	1.34	1.14
Serbia	0.82	0.82	0.74
Montenegro	1.09	1.12	1.03
Macedonia	1.04	1.04	1.24
Turkey	1.46	1.46	1.64
Albania	0.98	0.98	1.32
Average	1.00	1.00	1.00

Table shows results of the conducted analysis. Baltic countries, Turkey, Slovakia and Bulgaria have the strongest performance (Estonia being far superior to all) while Romania and Serbia are the ones that strongly underperform. Annex 3 shows the public sector performance on a 'possibility frontier' chart – the countries on the line reach their maximum production capacity while those under or right to it are underperforming and can get better results by increasing their efficiency - either by cutting costs and maintaining the current public sector services, increasing the level of the services or by employing both factors.

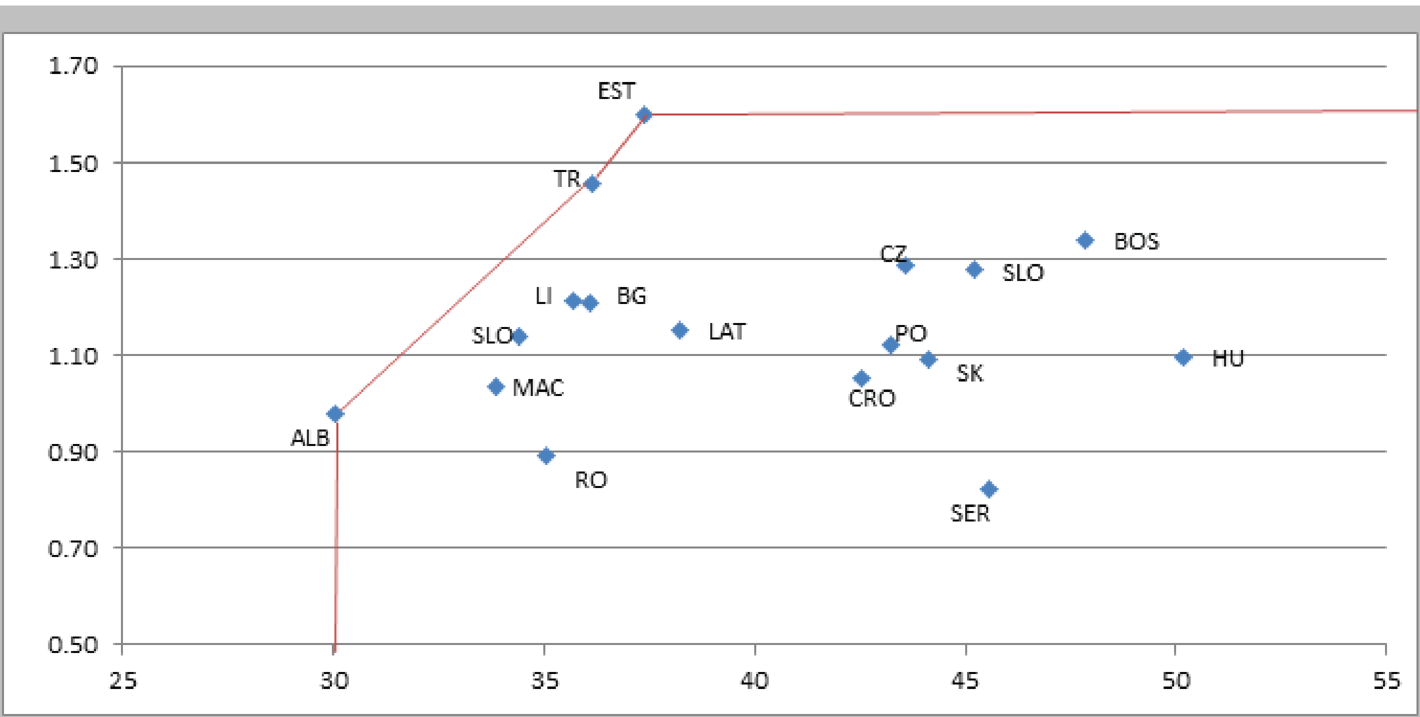


Chart shows the public sector performance on a "possibility frontier" chart the countries on the line reach their maximum production capacity while those under or right to it are underperforming and can get better results by increasing their efficiency - either by cutting costs and maintaining the current public sector services, increasing the level of the services or by employing both factors.

There are many possible uses of this analysis. The main one is to identify inefficiency in the public sector in order to see in which sectors the reforms are most needed. Fiscal problems these countries face in the face of prolonged economic crisis in Europe also place an emphasy on the need for successful austerity measures. Yet, this analysis shows that large austerity measures, if accompanied with increasing of public sector efficiency, will not lead to decrease of the quality of public sector services. For example, if average efficiency level is met, Serbia would finance its public sector with only 33.7% of GDP instead of current 48.3%, which would decrease significantly its public expenditures, eliminating high fiscal deficit and lowering tax rates, which would lead to acceleration of economic growth and prosperity.