

# What is public sector productivity?

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To believe that improving productivity is synonymous with cost cutting and layoffs is to misconstrue its real meaning. Greater productivity can certainly be achieved by reducing inputs, but it can also come from increasing the quality or quantity of the output. In fact, layoffs made purely to cut costs often lead to poorer service and thus to lower productivity.

When we recall the US productivity surge of the late 1990s, most of us correctly attribute it to a set of improved products and services that brought greater profits to companies and a higher standard of living for many — more powerful computers, more innovative retail formats, and increased securities trading come to mind. And all of this came at a time of low unemployment, when layoffs were not unusually high.

Still, when many people think about public sector productivity, they think about costs. The phrase “productivity gain” is used interchangeably with “savings” and this is regrettable. There are doubtless many cost savings to be found in government, but the greater productivity imperative is for government to deliver better results — both in terms of quantity and quality. We need more effective tax collection, higher levels of student literacy, healthier citizens, and so on.

Across the world, there is a welcome move toward thinking about the quantity and quality of output. This idea is widely described as “outcomes-based government” — assessing the results that governments achieve for citizens, rather than simply the activities that they generate. Best practice here means that the metrics of “tax returns processed” has been replaced by “percentage of expected revenue collected,” that “employment assistance grants issued” becomes “people back in work,” and that “students taught” now reads “levels of student literacy.”

Effective measurement of public sector productivity should capture these quality improvements in the same way that experts do in the private sector. In the US semiconductor industry, for example, productivity growth averaged 75 percent a year from 1993 to 2000 because of advances in processing speed. The price of chips stayed roughly the same but, since they were more powerful and valuable to consumers, their productivity increased. This is because those measuring the productivity increase established a quality-adjusted price measure that captured the improvement of the processing speed.

In government, moving tax returns online provides an analogy. This initiative does not, in a superficial sense, alter the activity output measure — there may be no increase in the total number of tax returns assessed — but the superior processing power leads to fewer errors, faster refunds and more convenience. In both technical and layman’s terms therefore, this is a highly productive outcome for all.

Most governments today do think about both results and costs, but too often they think about them as separate endeavors. The magic of productivity, however, is that instead of involving parallel efforts to increase results, on the one hand, and to control costs on the other, it connects these elements both conceptually and as a metric. Productivity is ultimately achieved when government continues delivering high-quality services but more cheaply; works out how to improve services for the same outlay; or transforms service delivery with carefully planned and monitored increases in investment.

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For more on public sector productivity, see Tony Danker, Thomas Dohrmann, Nancy Killefer, Lenny Mendonca, “How can American government meet its productivity challenge?” July 2006, [www.mckinsey.com](http://www.mckinsey.com)