

COMMENTS ON SESSION 3 TAXATION, REGULATIONS AND PUBLIC SERVICES

*Stefan Bach**

Comments on “How Costly Are the Public Sector Inefficiencies? An Integrated Framework for Its Assessment” by Jorge Onrubia-Fernández and A. Jesús Sánchez-Fuentes

Summary

The paper provides a theoretical framework to analyse public sector performance. Two equivalent measures of social welfare changes are proposed, obtained from the cost function, and directly from the production function. Applications to empirical analysis are discussed.

Comments

The efficiency issues of public spending are increasingly on the political agenda against the outstanding budgetary imbalances in many countries. It is helpful to provide and enlarge theoretical models to assess public sector inefficiencies in terms of social welfare. The latter implies not only budgetary savings but also indirect monetary gains, e.g., from better education and health. The authors discuss goods and services that are *excludable*, unlike pure public goods. It would be helpful to extend the analysis on the character of pure public goods such as defense, social security, etc. Financing issues could also be discussed. Excludable goods and services would allow for user fees covering the “private” character, whereas distortionary taxes are required to finance the mere public good impact such as redistribution or positive externalities. A further critical topic is the assumption of the exogenous degree of efficiency. Actually, organizational issues or rent-seeking behavior of politicians and public administration play an important role in public sector reform.

Transaction costs of implementing public sector reforms could be substantial with respect to the devaluation of existing capital and protection of trust/grandfathering, which provokes compensation requirements to the losers and thus reduces the welfare benefits from the reform. In a more dynamic setting, collective decision-making as well as the lack of competition and “creative destruction” in public sector performance and reform might be considered. Thus, one could distinguish between technical efficiency and economic efficiency in a narrower sense, which is largely addressed in the study, and a wider scope of dynamic and political efficiency.

Measurement and application issues regard the availability of information on production and cost functions, including organizational slacks. This would require raising internal information from public authorities. An alternative would be benchmark comparisons between different jurisdictions or countries, which have their own shortcomings. Demand functions on public goods could be derived from specific surveys, or by estimates from existing surveys and from political decision making and voting. Social welfare functions could be used to operationalize political programs.

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Comments on “The Quality of Government and Living Standards” by Francesco Grigoli and Eduardo Ley*Summary*

The study analyses the potential impact of public waste on national income and living standards in international comparison. Illustrative calculations based on scores from different studies are used to demonstrate the significant impact, which could imply a re-ordering of cross-country rankings on living standards.

Comments

The illustrative calculations reveal the economic importance of public waste in macroeconomic terms. However, the reliability of the efficiency scores is contentious. This would require scrutinizing public sector efficiency more detailed. Moreover, an implementation within national accounting is intricate. This would introduce a normative element of output valuation that goes beyond simple accounting. Similar corrections could also be applied to externalities of the private sector, such as environmental pollution, market failure, or inequality.

Anyway, it is meritorious to point out that public waste reduces real income and living standards. Larger disparities between countries or regions should be considered within the pertinent comparisons. Finally, this is another topic of criticism to GDP as an indicator of economic performance or even welfare, which should be part of the discussion following the Stiglitz-Sen-Fitoussi report. Therefore, items of public waste could be included into complementary satellite information attached to GDP compilations and rankings. This would, however, require measurable and reliable indicators of public waste in international comparison, and thus call for more detailed data from the public administration as well as output indicators on public goods such as health, education levels, etc.

Comments on “An Evaluation of the 1997 Fiscal Decentralization Reform in Mexico: The Case of the Health Sector” by André Martínez Fritscher and Carolina Rodríguez Zamora*Summary*

The paper provides an ex-post evaluation of the decentralization reform of health funds and responsibilities in Mexico in 1997. It aims to identify the impact of decentralization on health indicators, as there were no changes in the regional distribution of funds after reform. The authors found no significant effects on infant mortality rate at the state level by a comparison of outcomes before and after reform, further differentiated by state groups with different endowments. Moreover, as a natural experiment, the insured population is used as a control group, which indicates some increased efficiency of the program. The authors discuss reasons of the reform's meager results. In particular, they argue that it took some time to become effectively, and that there were no incentives for state governments to provide better services.

Comments

This paper is a fine impact assessment study, which aims to identify the impact of decentralization on public sector outcome at the example of public health care in Mexico. With respect to the empirical specification one might question whether the outcome measures are too rough. Child mortality of fetal death rate seems to be a rather specific indicator, although important

especially for low developed regions. Actually, the long-term impact, e.g. from medical prevention and rehabilitation would be interesting if measurable. Moreover it would be challenging to exploit the heterogeneity within the states, e.g., by measuring rural vs. urban areas, or the share of indigenous population. Finally, further reasons for ineffectiveness could be analyzed, such as organizational issues, or incentives for service provision before and after the reform. This would, however, require case studies or expert interviews on the implementation of the reform in single states.

