

# Public sector productivity

^The large fall in public sector productivity since 2019, assessed at 7.5% by the ONS to last year, is a major cost to taxpayers and a major drag on economic performance.

The immediate task for the Chief Secretary to the Treasury and the Cabinet Office Minister for the civil service must be to arrest the big increase in management and administration. The more managers and senior staff they recruit or promote, the worse the productivity becomes. The easiest thing to do it to impose a ban on all new external recruitment into the civil service and the public administration, unless a special case is made out and approved by a Minister.

Natural run off occurs at around 6-7% a year as people retire, find other jobs elsewhere or change their work life balance. As a post is vacated one of the many managers needs to decide if the post can be eliminated, or amalgamated with another. If not then a new appointment is made from within the civil service or public body, and some other post removed.

Ministers and top management would also have to make clear that to raise productivity the work done by these extra people either has to be abolished by better process or carried out more effectively. They must not contract more work out to the private sector. They should review their use of private contracts on a regular basis, asking each time the contract comes up for review if this is the best way to do the work or if now they know how to do it more of it could be done in house to raise productivity. There is a tendency to have a bigger overhead of managers who then buy in more work from outside to keep their own headcounts down a bit. There has been a big grade inflation as the civil service has expanded, implying more buy in of the work from outside .

We may need more doctors, nurses, teachers, police and other front line personnel. There are plans underway to do so. Some of this requires extra back up staff so they can do their jobs well. That should be allowed where it is needed for growth of output. If we need more doctors and nurses to put through more treatments, or more teachers for more pupils then that will not depress productivity to have sensible support staff numbers.

What is strange is the fall in productivity and the big increase in clerical staff has taken place against a background of large expenditures on new computer systems and big breakthroughs with artificial intelligence, faster and better data processing., more remote working and conference calls to cut down travel time , better software for everything from booking systems to accounts. So why hasn't this led to a big productivity gains in the public services that have a high administrative content?

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# My Intervention in the Animal Welfare (Livestock Exports) Bill

John Redwood (Wokingham) (Con):

I, too, thank the Minister and the Government for their fantastic legislation and great track record, of which we can be truly proud. Is it not the case that this Bill would not have been possible when we were EU members, and that we have put right that wrong? I urge the EU to catch up.

Mark Spencer (Minister for Food, Farming and Fisheries):

As ever, my right hon. Friend is absolutely right.

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## The UK – too few producers

Fifty years ago when a Labour government came into office early in 1974 they spent more in the public sector, borrowed more, fuelled a subsidy and wage inflation in the nationalised industries and lost control of the nation's finances. They had to go cap in hand to the IMF to get a bail out to defend the pound. The IMF made them start a programme of spending cuts. After a disastrous economic performance with high inflation, collapse in growth and many industrial closures they lost the 1979 election.

Labour had got in following the unfortunate short Heath government of 1970-4. The Heath government presided over an inflation followed by a recession along with the US and Europe. They blamed it mainly on the decision of the OPEC Middle Eastern oil producing countries to form an aggressive cartel, cut output and force the oil price up massively. This was certainly very damaging and affected many advanced countries. The UK version was made worse by a miners strike. It was also the case during these events that the UK government put up its spending and greatly increased its interference in the economy with a prices, wages and nationalised subsidy programme. It allowed the Bank of England to expand the money supply by adopting a new monetary policy called Competition and credit control. Large amounts of lending were generated which led to a property bubble.

I mention this not because our current position is the same, though we can learn from the impact of an external energy shock and from bad Central banking in both 1970-3 and 2020-3. I mention it because the period of damaging Labour government led to the publication of the work by Eltis and Bacon, two Oxford economists, pointing out the UK had too few producers. The UK then had a worse productivity problem across the whole economy than we do now. Their analysis showed how the massive overextension of the public

sector to 60% of GDP was unsustainable. It led to tax rates that were far too high, which deterred new investment in the private sector and encouraged the brain drain as successful and talented people went elsewhere to avoid the penal levels of income tax Labour imposed. The marginal rate was 83% on earned income and 98% on savings income, effective confiscation. The poor productivity in the public sector was compounded by low productivity in the private sector. Contrary to common belief at the time a lot of business did have modern machinery like the US and Germany, but did not get the same output per person from it.

The Eltis and Bacon main perceptions that too much public spending led to a squeeze on the private sector were correct. When looking at today's problems there are some similarities. It is however important to recognise the fact that the public sector does produce valuable output which is captured in modern GDP figures by assessing the number of pupils taught and the number of NHS treatments undertaken. I will be looking again in future articles at the fast productivity decline in the public sector 2019-23, a new feature, as well as the related lack of good control over public spending growth rates.

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## [My Interview with the Institute for Art and Ideas: Inflation: plague or profit](#)

Please find below the link to my Interview with the Institute for Art and Ideas on inflation.

You can find my contribution which begins at 05:38.

[Economic fact and economic fantasy \(iaai.tv\)](https://iaai.tv)

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