Is it possible to measure the efficiency of welfare states?
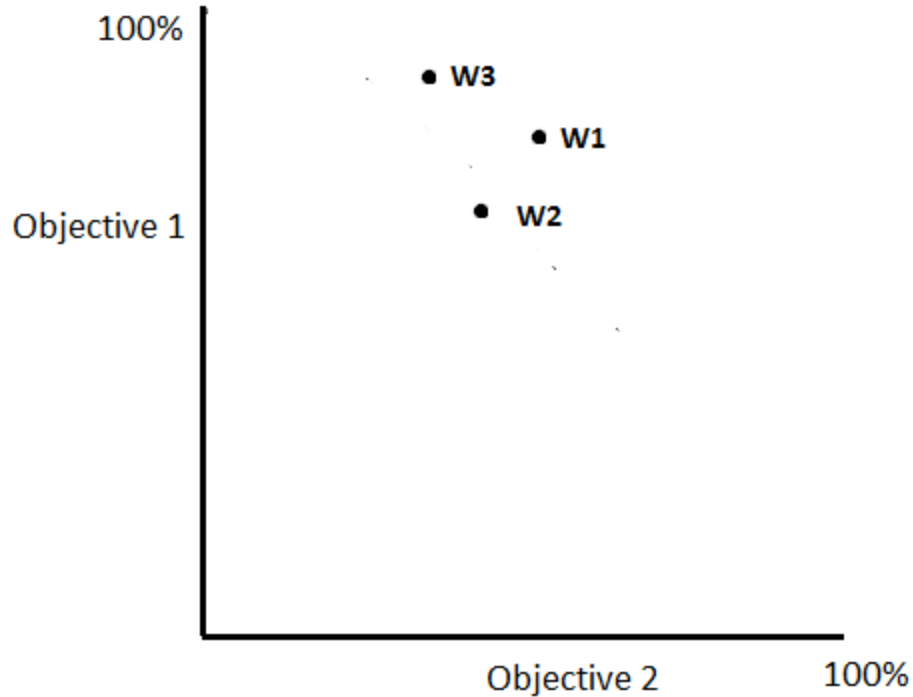
Frank Vandenbroucke

Brussels, 27 May 2013

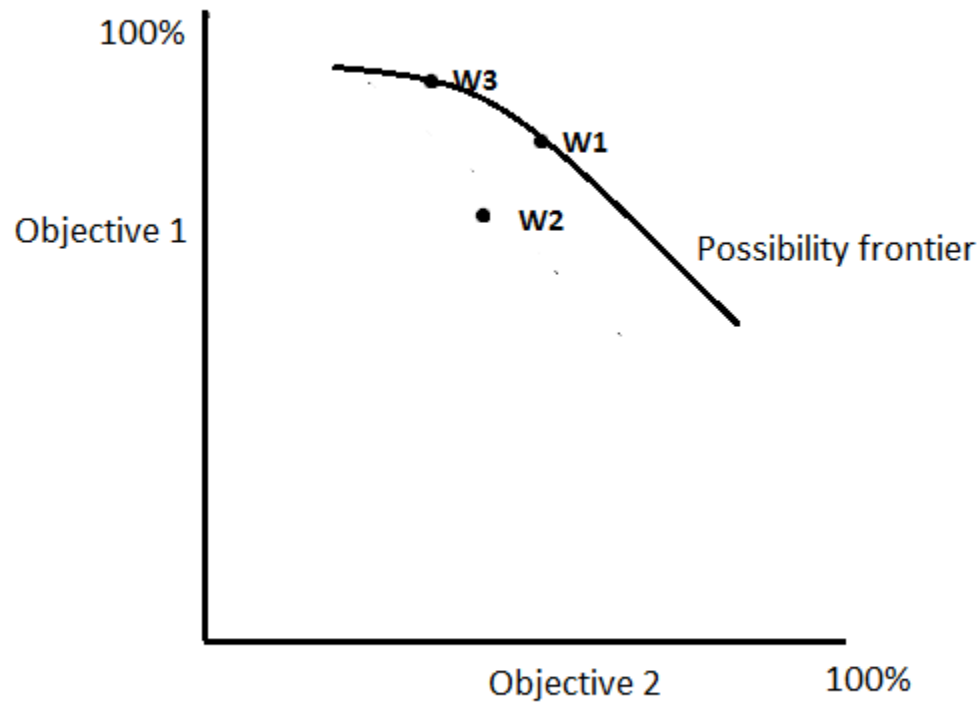**Well-known arguments on welfare states and efficiency**

- Redistribution and Pareto-efficiency (*Okun*)

- Social insurance and Pareto-efficiency (*Barr*)

- Welfare states as 'productive assets' (*Hemerijck et al.*)

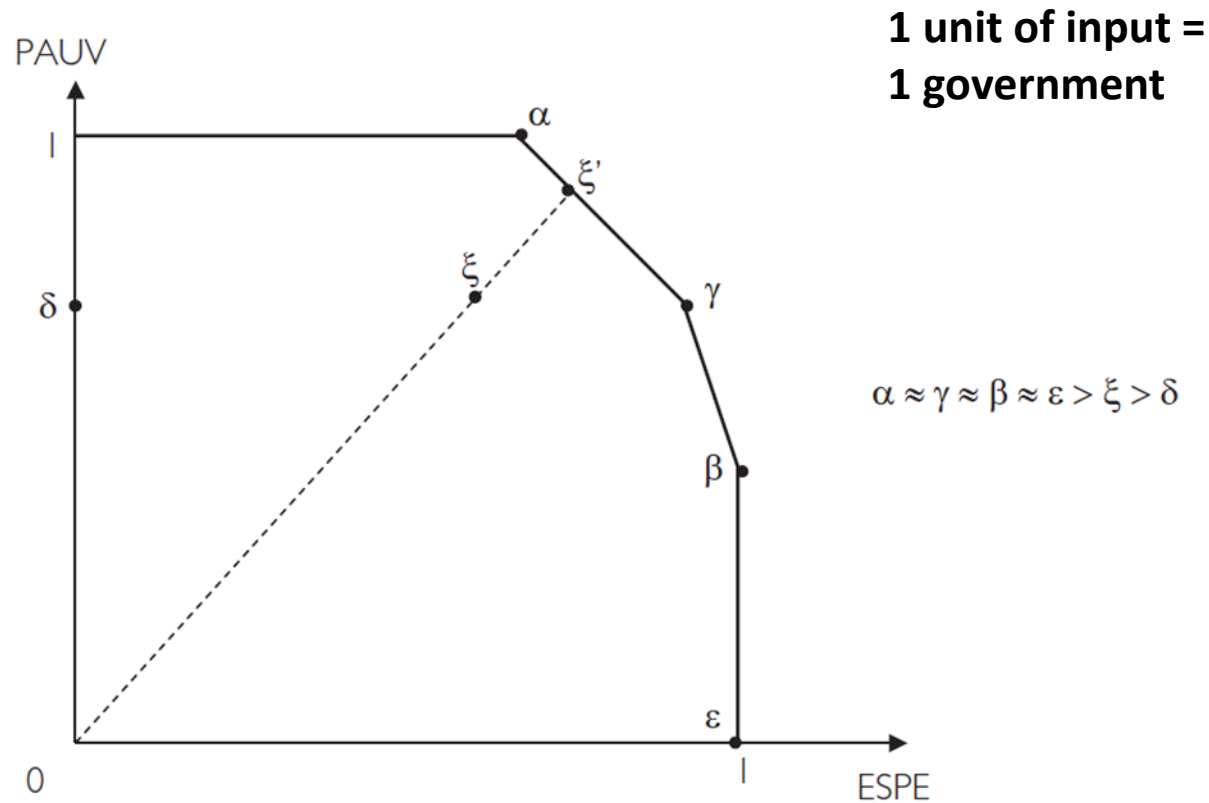# Can we assess the Pareto-efficiency of welfare states? (1)

E.g. objective 1 = child poverty
objective 2 = education inequality

Can we assess the Pareto-efficiency of welfare states ? (2)

An alternative approach to multidimensional performance measurement: Lefebvre & Pestieau (1)

1 unit of input =
1 government

$\alpha \approx \gamma \approx \beta \approx \varepsilon > \xi > \delta$

Lefebvre, M., and P. Pestieau. 2012. *L'Etat-Providence en Europe. Performance et Dumping Social*. Paris: Editions Rue d'Ulm.

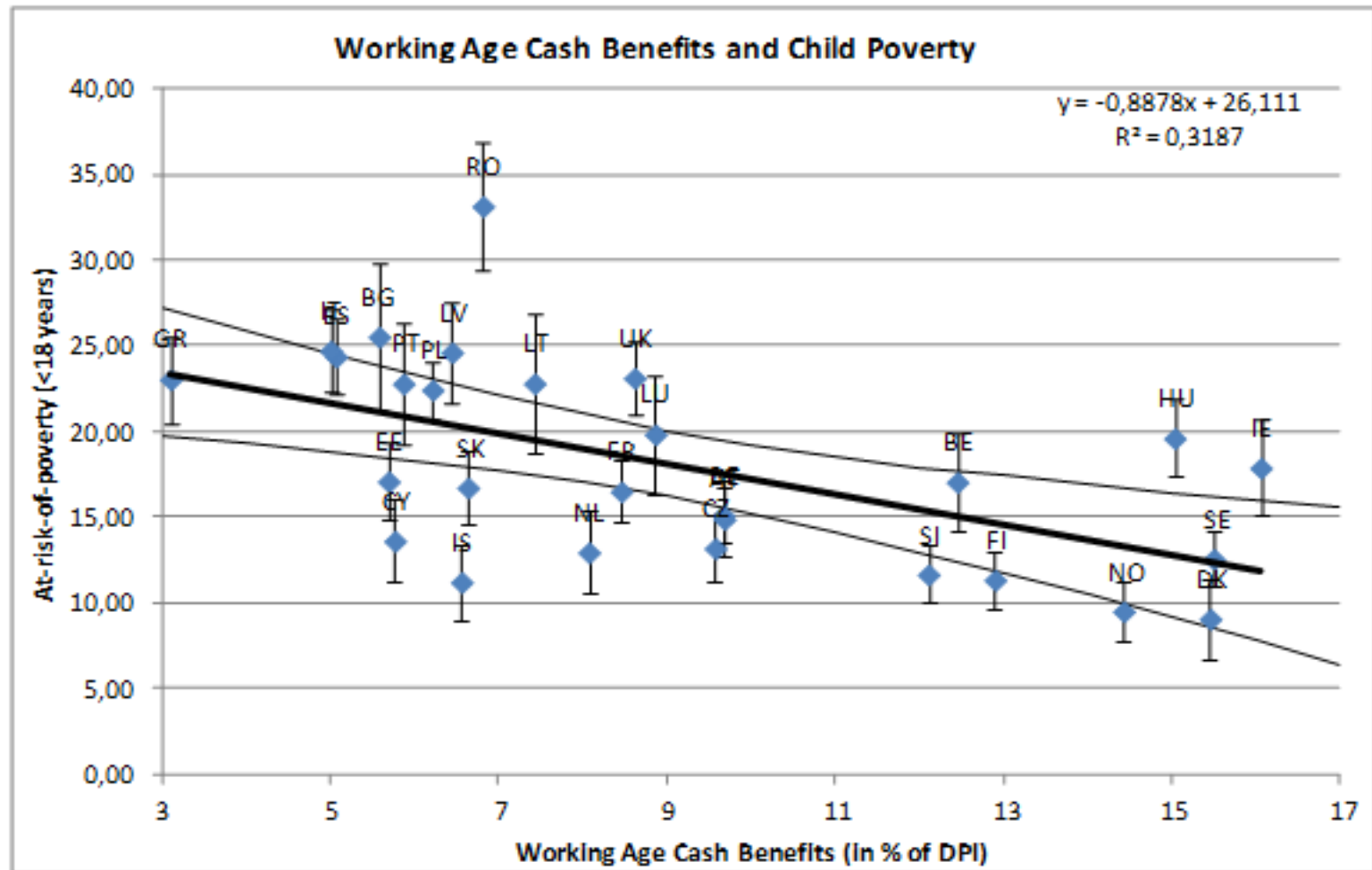# An alternative approach to multidimensional performance measurement: Lefebvre & Pestieau (2)

	SIP	Classement	DEA	Classement
AT (Autriche)	0,846	3	1,000	1
BE (Belgique)	0,622	8	0,883	11
DE (Allemagne)	0,603	9	0,800	12
DK (Danemark)	0,646	7	0,952	9
EL (Grèce)	0,389	13	0,763	14
ES (Espagne)	0,203	14	1,000	1
FI (Finlande)	0,744	5	0,972	8
FR (France)	0,716	6	1,000	1
IE (Irlande)	0,488	12	0,896	10
IT (Italie)	0,522	11	0,994	7
LU (Luxembourg)	0,781	4	1,000	1
NL (Pays-Bas)	0,874	1	1,000	1
PT (Portugal)	0,197	15	0,382	15
SE (Suède)	0,872	2	1,000	1
UK (Grande-Bretagne)	0,537	10	0,791	13
UE15	**0,603**	–	**0,896**	–

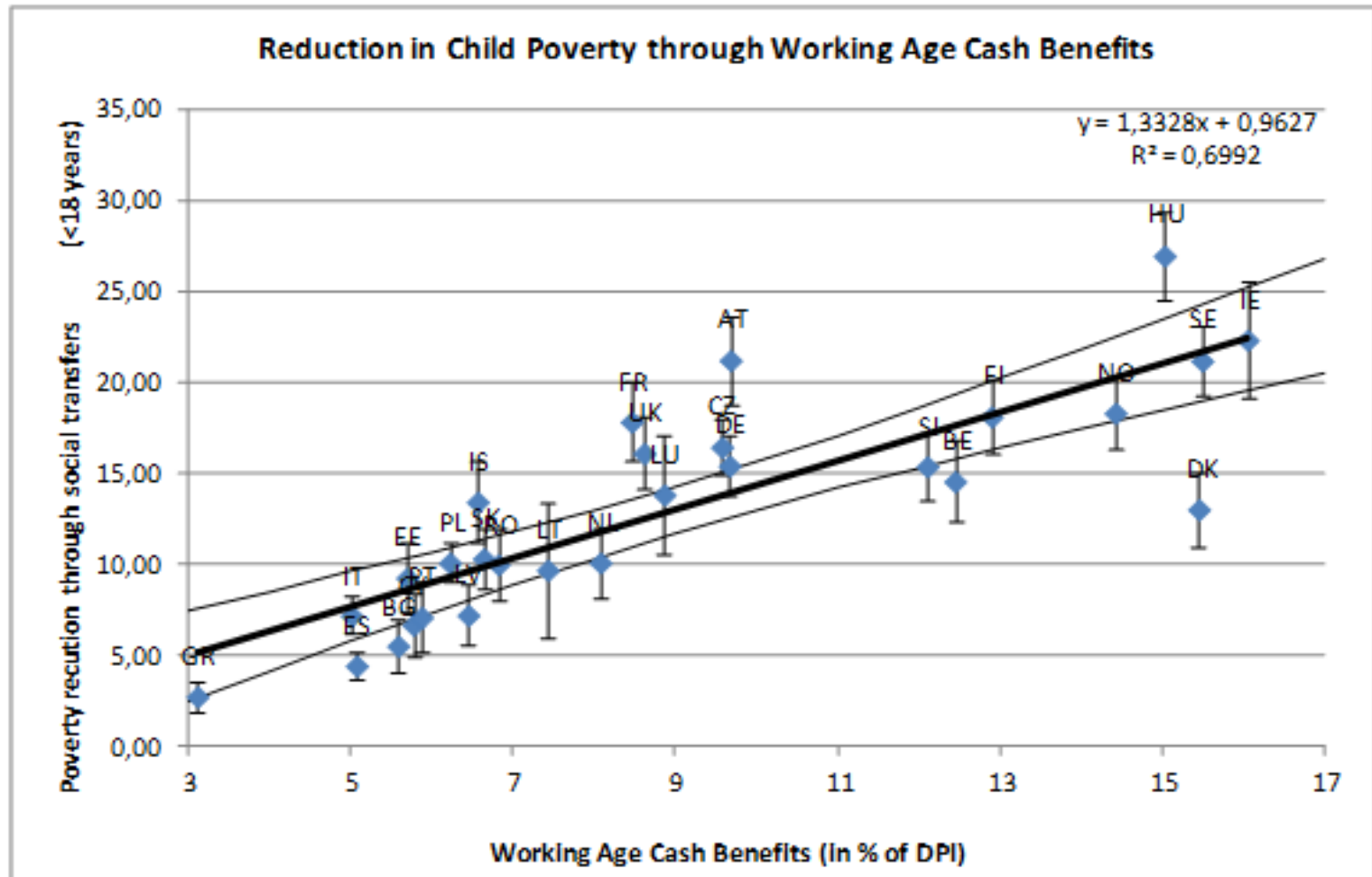**One-dimensional performance assessment and 'efficiency benchmarks'**

- Focus on one specific outcome (e.g. child poverty)

- Final outcome (e.g. post-transfer poverty), or 'conditional' outcome (e.g. poverty reduction by transfers)?

- Selection of 'policy inputs' and 'circumstances'

- Controlling performance for 'policy inputs' and 'circumstances' yields 'efficiency scoreboard'

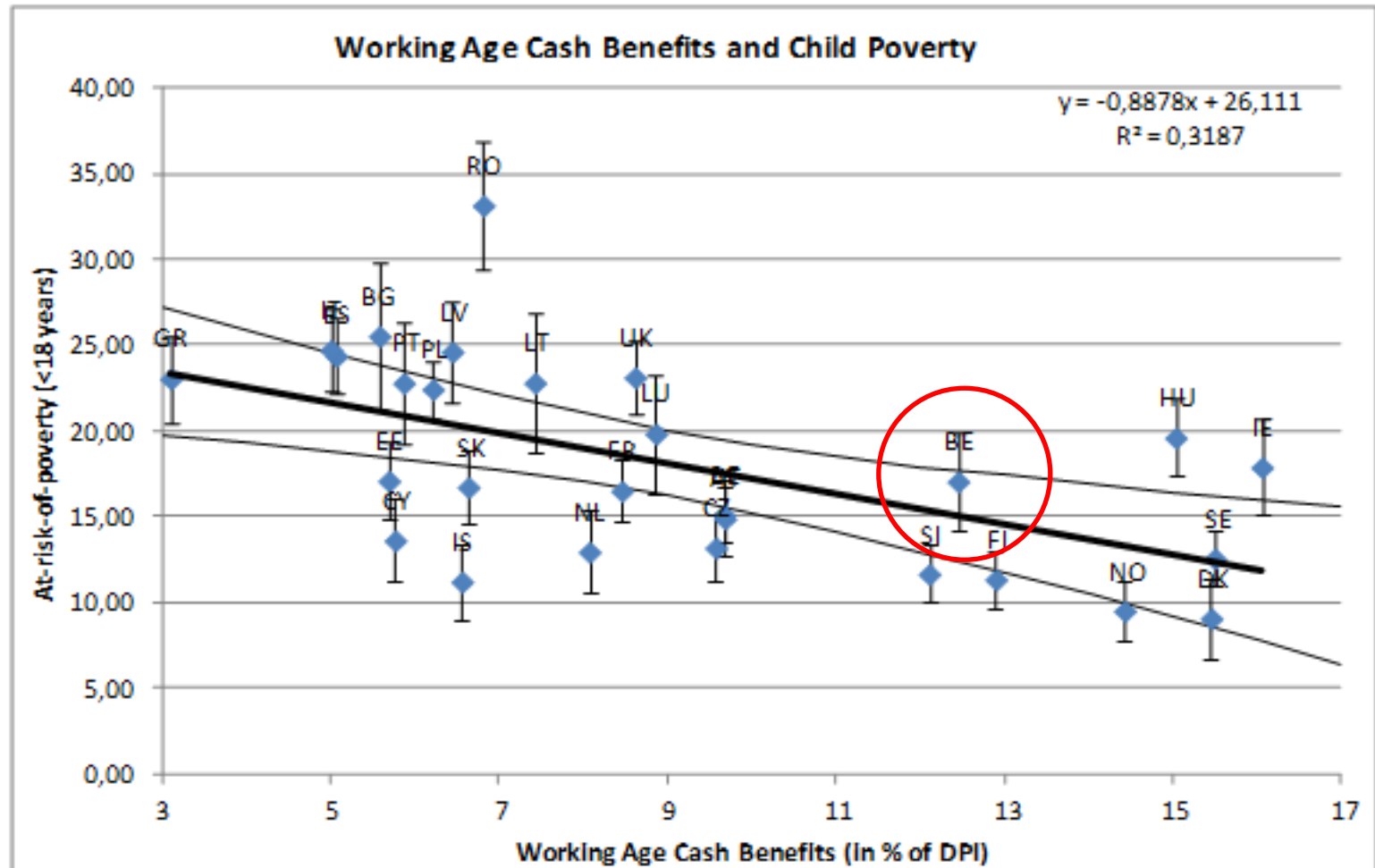# Illustration based on 'naive regression' (1)

SILC 2008, Vandenbroucke, *The Active Welfare State Revisited*,
Working Paper 12/09, Centre for Social Social Policy Herman Deleeck

Illustration based on 'naive regression' (2)

SILC 2008

Illustration based on 'naive regression' (3)

Caveats with regard to 'efficiency'

- Efficiency is not a prime virtue

- Selection of objective, measurement of objective

- Selection and interpretation of inputs

- Cross-country vs. intertemporal perspectives on comparative efficiency

- Statistical pitfalls, e.g. sensitivity to outliers

- Dynamic legitimacy vs. static ('here and now') efficiency

Why should we measure efficiency?

- *Prima facie* indication of possibilities to improve performance

- Mutual understanding of performance disparities

Full text:

F. Vandenbroucke, R. Diris, G. Verbist, *Excessive Social Imbalances and the Performance of Welfare States*, Euroforum Policy Paper, KU Leuven, https://www.kuleuven.be/euroforum/