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Mr Ian Gibbs
Assistant Commissioner
Productivity Commission

Dear Mr Gibbs

I am writing in reference to the position paper Nursing Home Subsidies put out by Productivity Commission on the 23 October 1998, and in particular comments on page 47 addressing sector-specific productivity indexes being developed by the Australian Bureau of Statistics (ABS). In this regard I wish to clarify the scope and timing of the ABS work program for developing better measures of output for non-market industries. This work should lead to a more comprehensive measure of overall productivity and, in the longer-term, possibly measures of productivity for broad non-market industries.

The ABS is currently assessing whether it is possible to develop output measures that are independent of the input measures for several of the most significant non-market industries. During 1996-97, experimental output measures were developed for government health services; the results of this work were put to peer review and presented at Australian and international conferences in the second half of 1997. During 1997-98, experimental output measures are being developed for government education; these are being put to peer review in the second half of 1998. Work will soon commence on other government services.

Experimental Output Measures for Government Health Services

Experimental output measures have been developed for most major segments of the Health services industry, including public acute care hospitals, public psychiatric hospitals, private hospitals, nursing homes, medical and dental services, and other health services. Although the main focus of the project was government health services, similar methods have been applied to develop better output measures for some private health services. In the main, the experimental estimates relate so far to just the first half of the 1990s.

The richest data are available for the public acute care hospitals segment of government health services. Our preferred output measure for hospital inpatient care is based on the National Hospital Morbidity (Casemix) Database, which provides data on

the number and cost of 667 different treatments (the 'diagnosis related groups', or DRGs). These data imply an output index for inpatient care that rises by an average of around 7 per cent a year over a three-year period in the early 1990s; this contrasts with an average rise of just over 2 per cent a year in the present input-based estimate of output volume for the whole Health and community services industry. (More disaggregated national accounts estimates are not available for comparison.)

In the first quarter of 1999 the experimental output measures for the health services industry will be reviewed by the ABS regarding their inclusion in the Australian National Accounts (ANA). Even if the experimental output measures are adopted for some sub-components, they may not necessarily be adopted for all. A case-by-case decision will be taken on the quality of each of the measures. In any case, the ANA is unlikely to show output measures on the new basis for any level much below the broad industry level. Therefore, even if the ABS decided that the output measures for nursing homes were of sufficient quality to incorporate into the ANA, separate output estimates for nursing homes would not be published.

The ABS does plan to undertake an in-house productivity analysis of the health services industry based on the experimental output measures. However, this analysis is not likely to be published for some time given the long term nature of productivity analyses and the relatively short time series available for measuring the output of the health services industry. The ABS has no plans to undertake productivity analysis, even on an in-house basis, for components of the health services industry, for example, the nursing home component, as suitable input measures are not available at a component level.

The ABS's priority is to enhance economy wide measures of multi-factor productivity. The ABS is currently enhancing its measures of multi-factor productivity for the market sector as a whole through improved measurement techniques for estimating inputs. The improved measure of multi-factor productivity for the market sector will be published in the *Australian System of National Accounts* (5204.0) in February 1999. It may be that the scope of multi-factor productivity statistics is expanded in due course to include at least some of the non-market industries, depending on an assessment of the quality of the output measures for this purpose. However, it will be some time before the ABS publishes industry-by-industry multi-factor productivity estimates.

If you have any queries regarding the ABS work program for measuring the output of non-market industries please contact Steven Kennedy (phone 02 6252 6100).

regards

Steven Kennedy
Director
Analytical Services
Australian Bureau of Statistics
16 November 1998