



European
Research Area

EUROPEAN POLICY BRIEF

SPINTAN – Policy Brief No. 8

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Development of public spending structures in the EU Member States: Social investment and its impact on social outcomes*

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SUMMARY

Objectives of the research

Public spending should –apart from fostering growth– increase welfare. We examine differences in levels of social expenditures (health, education and social protection) in the EU and developments in real terms per capita from 1995-2013 and analyse the impacts of these expenditures on public health and social outcomes.

Scientific approach / methodology

We construct time series on per capita public and private expenditures in real terms at purchasing power parities for individual EU countries to examine medium-term developments and crisis-induced expenditure cuts. Effects of public expenditures and economic inequality on social outcomes are analysed applying fixed effects panel regressions.

New knowledge and/or European added value

Levels of public social spending matter, particularly for differences between EU countries in terms of life expectancy, mortality, participation of young people in education and employment, but also crime rates. It is therefore worrying that, after a period of cohesion, public expenditures p.c. in health, education and social protection have been reduced in a number of South and East European cohesion countries since 2007.

Key messages for policy-makers, businesses, trade unions and civil society actors

The cuts in public spending that have taken place in South and East European EU countries are found to be not only detrimental to growth but also to social cohesion. Particularly in those EU countries with relatively high income poverty, social welfare is thus in danger.

* This Policy Brief is based on the SPINTAN Working Paper No. 8: Leitner, S. and R. Stehrer (2016): 'Development of public spending structures in the EU member states: social investment and its impact on social outcomes', available on the SPINTAN website <http://www.spintan.net/c/working-papers/>.

Objectives of the research

The role and magnitude of the public sector is nowadays discussed mostly with respect to the size of the budget deficits. However, the government sector needs also to be seen as the provider of important goods and services to foster economic growth and raise and equalise overall levels of welfare, often enabling the economies to function more smoothly or to counteract emerging social inequalities. Thus, in our research we examine developments of various types of public expenditures identified by the European Commission in its ‘Europe 2020’ agenda as important for both social cohesion and growth in the EU over the period 1995-2013: health, education and social protection. In addition, we examine levels and developments of private expenditures on health and education and analyse to which extent public and private social expenditures are substitutes or complements. We highlight crisis-induced spending cuts and furthermore analyse the effects of between-country differences and developments in expenditures and economic inequality on social outcomes with respect to public health, education and employment participation of young people and crime rates.

Scientific approach / methodology

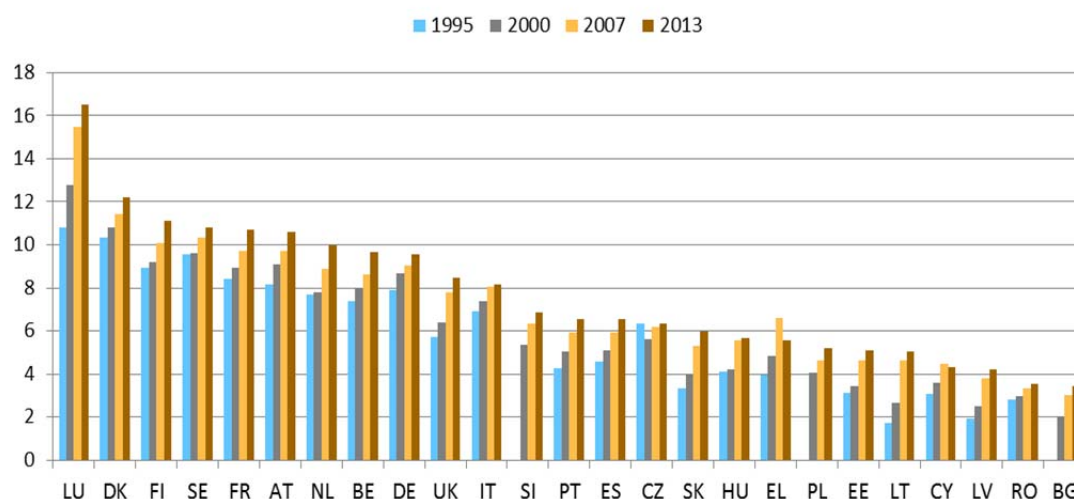
The comparison of public expenditure levels and developments over time is often performed based on spending as a share of GDP. This results in rising spending levels in times of recession. Since, however, we are interested in changes in real terms and possible cuts in social expenditures following the outbreak of the economic crisis in the EU, we construct deflated per capita public expenditure time series at purchasing power parities for individual EU countries based on COFOG data (Government expenditures by function). A similar approach is applied for the construction of private per capita expenditures for health and education based on COICOP data (Classification of individual consumption by purpose).

We examine the effects of public expenditures and income inequality on social outcomes applying fixed effects panel regressions. Effects of health expenditure are tested on life expectancy and mortality rates; effects of education expenditure on rates of young people not in employment, education or training (NEET), and effects of social protection expenditures on crime rates (property crime: domestic burglary, robbery, vehicle theft; violent crime: homicide and assault).

New knowledge and European added value

Development of social expenditures: In the period from 1995 up to the economic crisis, public expenditures per capita in real terms increased in general throughout the EU countries.

Public social expenditures (health, education and social protection)
(per capita, in thousand PPP at constant prices 2010)



Moreover, for some new EU Member States (Bulgaria, Latvia, Lithuania and Hungary) and Greece we observe a gradual catching-up in **public health expenditures** towards the economic core countries of the EU. However, since the year 2007 health expenditures per capita have lost momentum in the South and East European cohesion countries. They even declined in Spain, Portugal, Bulgaria and Hungary, to a stronger extent in Italy and Latvia, and were cut dramatically in Greece. Catching-up before the crisis was even stronger in **public education expenditures**. The implementation of austerity measures thereafter resulted in per capita spending being reduced in Spain and Italy, and more significantly in Bulgaria and Romania. Substantial differences exist in per capita **social protection expenditures** between the EU country groups. The South European cohesion countries Portugal, Spain and Greece spend about half the level of the EU core countries, and most new EU Member States only about a third (Bulgaria, the Baltic States, Romania and the Slovak Republic). Leaving aside crisis-driven unemployment benefits, spending was reduced in real terms in Greece, Hungary, Lithuania and Romania.

For private spending and public expenditures (based on COICOP and COFOG data) on **education**, a **substitution** effect seems to be prevailing, i.e. those countries with lower government expenditures per capita tend to feature higher individual spending on education. This is particularly the case for Romania, Bulgaria and Greece. Further, for some of the new EU Member States the individual expenditures are higher per capita. For **health** expenditures no such relationship can be observed, with no clear patterns concerning private health expenditures per capita in relation to public ones.

Addressing the impact of government spending on social outcomes, we find that public health expenditures (controlled for GDP levels) affect life expectancy positively and overall mortality negatively in the EU countries, i.e. **higher shares in public spending result in better public health outcomes**. Concerning the effects of **education expenditures** on the NEET rate, one finds that public expenditures have been **particularly important in the crisis**: While youth employment rates fell in almost all countries, in those with higher public spending levels in education the young population has been better off. Concerning **social protection** we find that **higher government spending is correlated with lower rates of crime** (both for property crime: domestic burglary and vehicle theft, but also violent crime: homicide rates and mortality rates due to assault). In the vast majority of regressions on various aspects of welfare, the incidence of **higher income poverty worsens the overall level of social outcomes** in the field of health, education and crime, respectively.

**Key messages for
policy-makers,
businesses,
trade unions and
civil society actors**

After experiencing cohesion in public education and health expenditures, crisis-induced cuts took place in a number of South and East European Member States. The study shows that public expenditures are key drivers for differences in welfare levels between the EU countries and cuts thus endanger social cohesion within the EU. Reductions in public expenditure are detrimental to progress in public health, the participation of young people in education and employment, but also to lowering crime rates. In EU countries featuring high income poverty, the effects of public expenditure cuts are most harmful for overall social outcomes.

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Coordinator	Instituto Valenciano de Investigaciones Económicas (Ivie), Spain
Consortium	<p>Instituto Valenciano de Investigaciones Económicas (Ivie), Spain</p> <p>National Institute of Economic and Social Research (NIESR), United Kingdom</p> <p>LUISS Libera Università Internazionale Degli Studi Sociali Guido Carli (LUISS), Italy</p> <p>Istituto nazionale di statistica (Istat), Italy</p> <p>Imperial College of Science, Technology and Medicine, (IC), United Kingdom</p> <p>The Conference Board Europe (TCBE), Belgium</p> <p>Organisation for Economic Co-operation and Development (OECD), France</p> <p>Zentrum für Europäische Wirtschaftsforschung (ZEW), Germany</p> <p>Deutsches Institut für Wirtschaftsforschung (DIW), Germany</p> <p>Wiener Institut für Internationale Wirtschaftsvergleiche (wiiw), Austria</p> <p>Forum för reformer och entreprenörskap, (FORES), Sweden</p> <p>Kopint-tarki Konjunkturakutató Intezet (Kopint), Hungary</p>
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For more information	info@spintan.net or matilde.mas@ivie.es