

Education and the Quality of Public Finances

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education and training for growth, jobs and social
cohesion**

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Overview

- 1. The quality of public finances: a multidimensional concept**
- 2. Why is it acquiring a growing importance in the policy debate?**
- 3. Composition, efficiency and effectiveness of public spending**
- 4. Way forward**



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Quality of public finances: Definition

Quality of public finances refers to the conduct and organisation of budgetary policy and its potential impact on the long-term growth and adjustment capacity of the economy

Quality of Public Finances: A multidimensional concept

- 1. Institutional settings, including fiscal rules**
- 2. Composition of public spending**
- 3. Efficiency of public spending**
- 4. Efficiency of tax revenues**

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Why is it important?

- **Public spending and revenues account for a large share of GDP**
- **Fiscal discipline in the context of the Stability and Growth Pact (SGP)**
- **Spending on growth enhancing measures in the context of the Lisbon Strategy**

Sustainability of public finances

- **Spending pressure on public balances stemming from ageing**
- **Avoid the crowding out of growth-enhancing expenditures**

Benefits from good quality education spending

- **Education spending accounts for a large share of total public spending**
- **Improved educational achievements can contribute to :**
 - **raise productivity and facilitate adjustment in a globalised economy**
 - **increase employability and stimulate social cohesion**
 - **combine sound and sustainable public finances**

Increased attention by ECOFIN Council for Quality of public finances

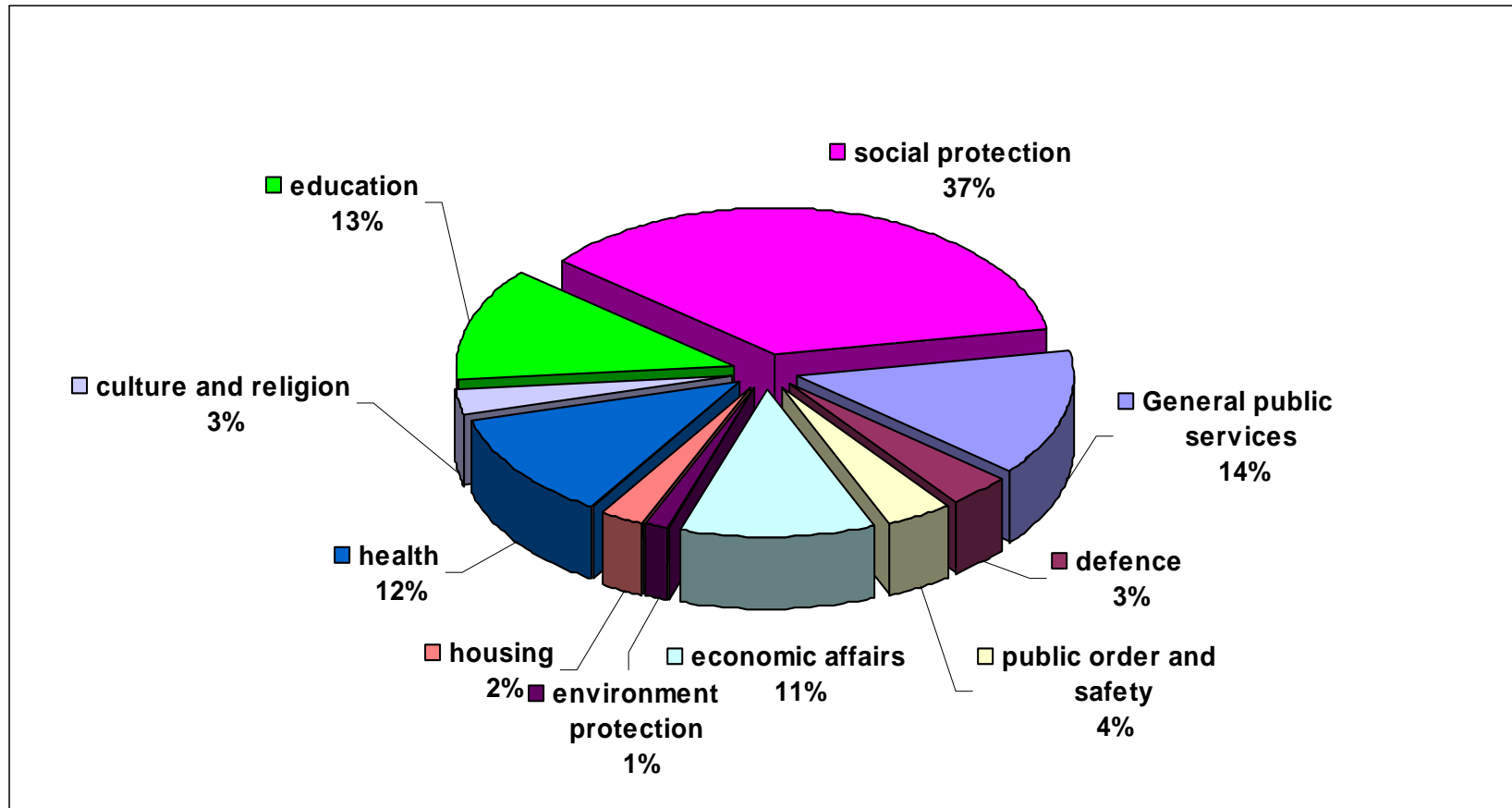
ECOFIN Council Conclusions of 5/06/07:

- 1. Continue to analyse impact of institutional settings on composition, transparency and efficiency of public budgets**
- 2. Improve data availability, in particular for education, health care and social protection and R&D by 2008 at the latest**
- 3. Develop analysis of public expenditure efficiency and effectiveness, in particular in R&D and education**
- 4. Exchange information on current and planned tax reforms and their impact on growth and employment**

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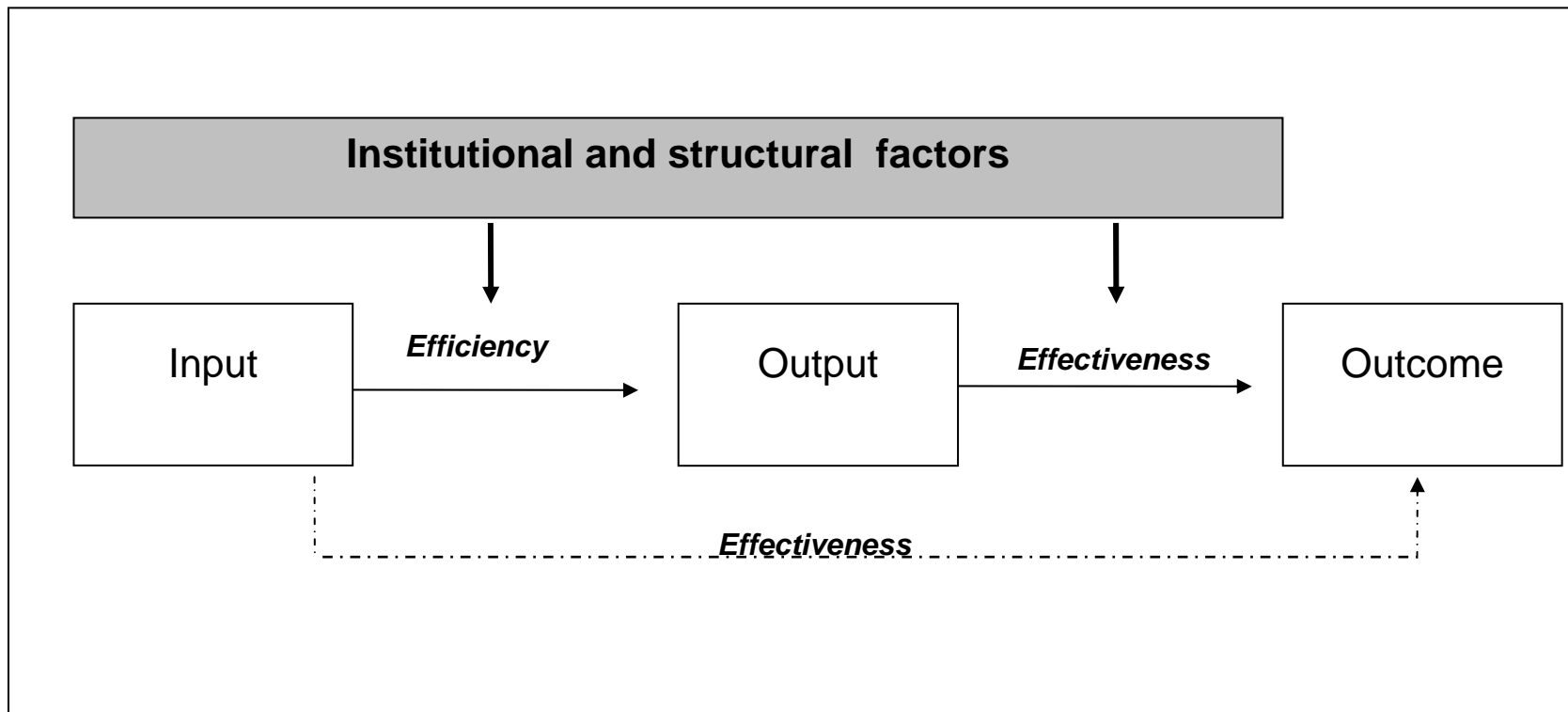
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Composition of public spending



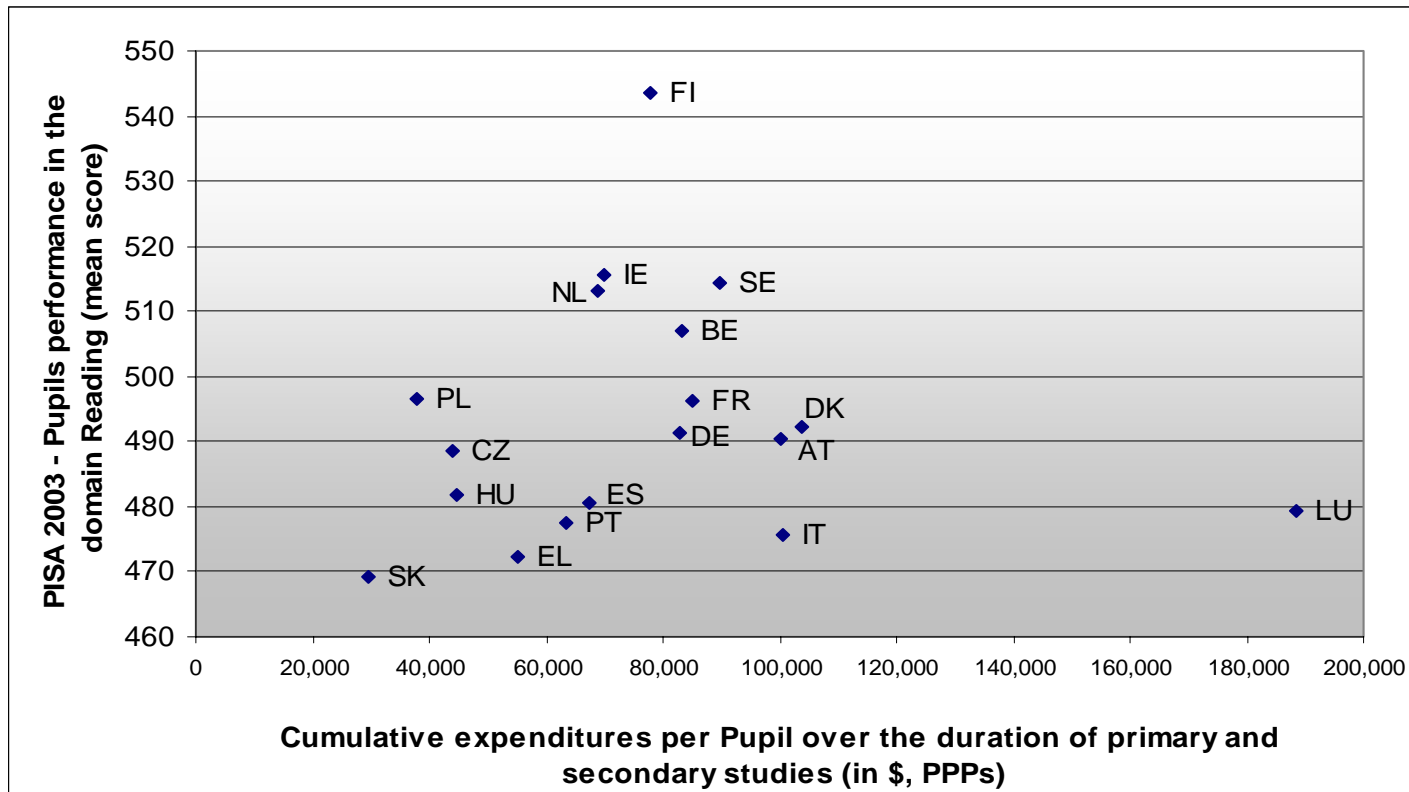
Source: EUROSTAT, COFOG, EU-25 average

Concepts of efficiency & effectiveness





Spending - PISA



Source: OECD

Efficiency of public spending on education

Countries	Clements (2002)	OECD (2007)	Afonso et al. (2006)
	Possible efficiency gains using the same resources		
Austria	1.3	6.0	9.5
Belgium (*Fl.)	-	2.0	5.5
Czech Republic	0.9	6.0	6.8
Denmark	1.7	4.9	9.3
Finland	0.0	1.6	0.0
France	1.3	5.4	7.2
Germany	1.3	9.1	8.3
Greece	0.0	7.0	8.2
Hungary	0.5	4.7	10.5
Ireland	0.0	2.2	7.9
Italy	1.4	6.9	5.1
Netherlands	1.1	5.1	3.7
Portugal	5.3	2.2	6.1
Slovak Republic	-	5.3	1.8
Spain	2.0	3.4	2.9
Sweden	1.7	6.0	0.0
US	2.4	8.2	-

Investigating the determinants of efficiency is crucial

- **Various determinants (institutional, structural)**
 - In the area of education: greater autonomy of schools and education of parents
- **Interactions between determinants**
- **No “one-size-fits all” model for efficiency improvement**

Function-by-Function approach

- **Measurement of efficiency is complex**
- **Function-by-Function approach more promising to derive concrete policy conclusions**
- **First candidates :**
 - Growth-enhancing expenditures : R&D, education
 - Expenditures affected by ageing : health care



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Way forward

- **Improve data availability**
- **Agree on concepts and methods**
- **Integrated in the assessment of the NRPs and, in a more medium term perspective, of the SCP**



**Economic
and Financial Affairs**

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Thank you!