



Public finances: Time for a quality check

Is the quality of fiscal expenses and revenues more important than the budget deficit?

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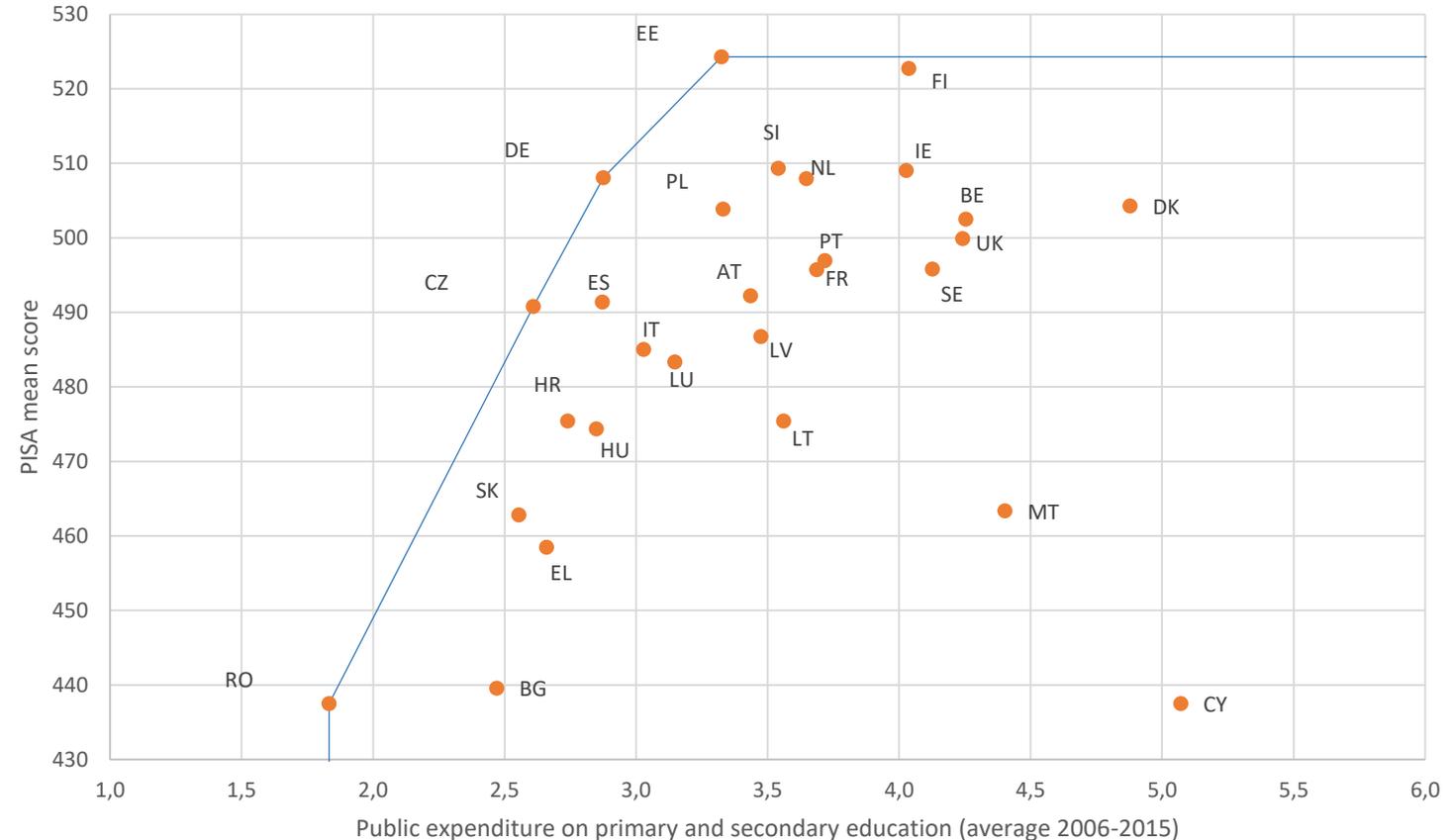
Bruegel lunch discussion 16 October

Composition or efficiency of public spending?

An example - education expenditure

Education expenditure vs quality of education (Pisa scores)

- What QPF? Focus on **composition of expenditures** or more on **efficiency**?
- **Low correlation** spending/GDP (or per capita) and outcomes.
- With same input higher output can be achieved. (**efficacy**)
- Keeping same output, input can be reduced (**efficiency**)

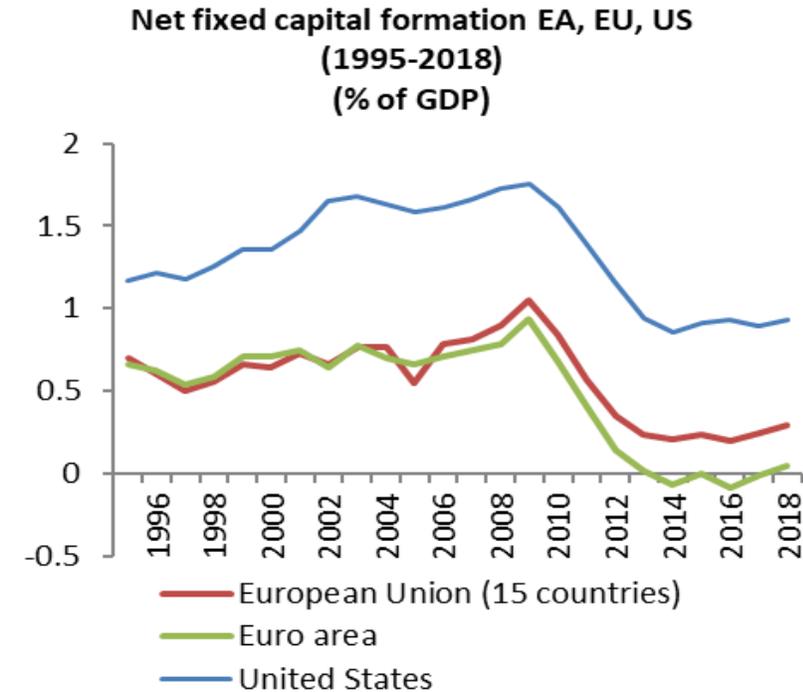
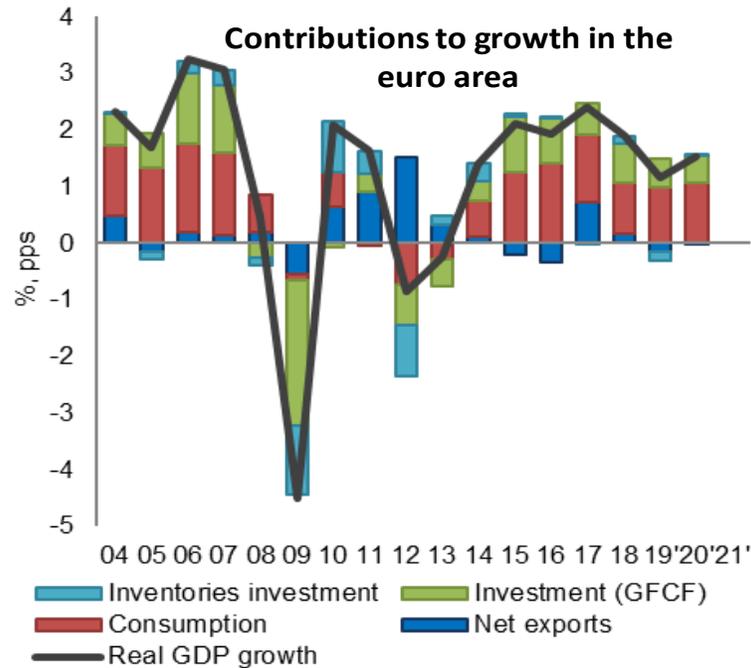


Policy coordination in the EU

The European Semester as a tool to improve QPF

- Considerations about the **quality of public finance play a prominent role in the Country-Specific Recommendations**
- On the **revenue side** the main focus is on:
 - **Lowering the tax burden on labour** in a budget neutral way, especially by reducing tax wedge for low-wage earners combined with a shift to taxes least detrimental to growth - such as recurrent property and environmental taxes (directly recommended to *16 Member States*)
 - **Broadening tax base** by removing distortive tax expenditures, broadening the tax base on consumption (*20 Member States*)
 - **Improving tax compliance** by applying specific measures and enacting broader compliance strategies (*17 Member States*)
- On the **expenditure side** :
 - Safeguarding **growth-enhancing expenditure** such as on research, innovation and education. Making space for productivity enhancing investment (*8 Member States*)
 - **Increasing effectiveness of public spending**, including by recommending spending reviews (*15 Member States*)

Spending reviews for investment



- Spending reviews can help sustain public investment without endangering fiscal sustainability
- Enhance efficiency of public investment as consistent with 2017 Eurogroup common principles on investment, 2018 EA recommendation, new focus on investment in European Semester

Some questions

- Much QPF analysis is on composition of expenditure. Shouldn't the policy focus on the expenditure side be more on efficiency and efficacy? How to enhance efficiency and efficacy? Spending reviews? Learning from 'what works' (CIE)?
- Implementation of reform recommendations is disappointing. How to enhance national ownership of the public finance reforms? How to bring on board crucial stakeholders? How to boost a genuine policy dialogue with Member States based on evidence-based policy making? Is an annual surveillance cycle sufficiently attuned to the reality of how reforms are decided upon and implemented?
- Environmental taxes will be important in the years ahead (carbon pricing). Should it be combined with cuts in effective taxes on low-income labour or low-income earners? Making work pay versus inequality and poverty (unemployment trap, (in-work) poverty trap)?