

The Size and Composition of Government Spending in Europe and its Impact on Well-being

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Abstract

This paper empirically analyzes whether the growth of public sector size in Europe over the past few decades reflects efficient responses to a changing economic and social environment or whether it indicates an increase in wasteful spending. In order to resolve this important issue, the effect of government involvement on subjective well-being is estimated in a panel of 15 European countries. Life satisfaction data is used as a proxy for well-being and is based on the answers given by 299,823 respondents in the Eurobarometer Survey from 1997 till 2004. The investigation reveals that the answer to the question above depends on institutional factors such as government effectiveness, government ideology and the extent to which democratic rights exist and are used by the public. A second question that arises is whether the government's ability to create well-being differs across several areas of intervention. Social protection expenditure appears to have no significant relationship with well-being, while health expenditure has a significantly negative impact on life satisfaction even when controlling for health status. Moreover, there is evidence for multi-peaked preferences with respect to public provision of education since a low or a high amount of education expenditure maximizes well-being.

JEL Classification: H11, H40, H50, I00, I31

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