



**COUNCIL OF  
THE EUROPEAN UNION**



**Council Conclusions on  
ensuring the future efficiency and effectiveness of social  
expenditure and way forward on the analysis  
of the quality of public finances**

***2866th ECONOMIC and FINANCIAL AFFAIRS Council meeting  
Brussels, 14 May 2008***

The Council adopted the following conclusions:

"The Council discussed the strategies to deliver more efficient, effective and sustainable welfare systems in the European Union.

EU Member States spend between 13% and 33% of their GDP on social expenditures. The Council emphasizes that increasing the efficiency and effectiveness of social expenditures will have a crucial impact on improving and securing the quality, evolution and long term fiscal sustainability of the European social models and public finances in general. Modern social, education and labour market policies should match flexibility with security and ensure that citizens are equipped with the skills, support and incentives they need to succeed in a changing world. Over the last decade, Member States have undertaken significant efforts to reform and ensure the sustainability of their social welfare systems, in particular to cope with the challenges of ageing populations, socio-economic changes and globalisation.

**P R E S S**

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The Council notes that the experiences of Member States help to identify possible directions for efficiency enhancing reforms. Whilst emphasising that there is no »one-size-fits-all« solution, the Council notes a number of general features which may support the efficiency and effectiveness of reforms of social protection systems:

- within countries it can help if different reforms (e.g. labour and pension reforms) are pursued together in a comprehensive approach taking into account all the various elements of the welfare system. Similarly it is important to consider the different levels of the public administration responsible for their implementation.
- social benefit schemes and tax-benefit systems should support the active inclusion and the life-long learning of those receiving transfer incomes with incentives to make work pay;
- social inclusion and the capacity to respond to change should be supported by policies that improve human capital formation throughout the life cycle;
- the complementarity between social and human capital spending is critical to ensure high labour participation, social inclusion, enhance the competitiveness of the EU, and control social spending;
- education in all stages has a crucial role to play within the strategy to enhance investment in human capital and tertiary education (both private and public) is a key determinant of the ability to innovate.

The strategies for enhancing efficiency and effectiveness of social spending would benefit from evaluating systematically and across countries existing policies and their impact on growth through appropriate, consistent and reliable measurement tools and indicators. A comprehensive overview of social spending would also benefit from appropriate information on private social spending as well as tax expenditures and the progressivity of tax systems. Specific tools such as performance budgeting and spending reviews or institutional arrangements including external review bodies can also help to improve cost effectiveness, budgetary discipline as well as the sustainability of social spending. Substantial gains may also be achieved through more efficient administration of social spending.

The Council:

- reconfirms the call for the EPC and the Commission to step up their efforts to improve the measurement and analysis of the quality of public finances and its impact on growth.<sup>1</sup> Member States and the Commission could include analyses on effectiveness and efficiency in the Lisbon National Reform Programmes and the Community Lisbon Programme.

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<sup>1</sup> See October 2007 Council conclusions

- invites the EPC and the Commission to continue their sectoral analysis, with a view to
  - assessing in more detail the efficiency and effectiveness of public spending on R&D and education. Given the strong relationship between higher education and productivity as well as growth, it would be desirable to develop appropriate performance measurement tools in order to assess its efficiency and effectiveness;
  - analysing the economic and budgetary impact of continuing health care and pension reforms. The exchange of experiences and best practices of social spending reforms should be fostered. Understanding how different social spending categories interact with the tax system together with the development of appropriate performance measurement tools and other forms of evaluation will facilitate enhancing the efficiency and effectiveness of social spending;
  - analysing the quality, sustainability as well as the efficiency and effectiveness of revenue structures and its interaction with welfare systems as well as its macroeconomic implications. In particular, the Council also reaffirms the need for Member States to exchange information on current and planned tax reforms and their impact on growth, employment and social spending within existing procedures; and
  - updating the work on fiscal frameworks including work on institutional arrangements conducive to better quality of public finances, including performance budgeting and spending reviews.

The Council takes note of the progress achieved with the delivery of cross-country second-level COFOG data for public expenditure. To allow further analysis of past trends in the composition of public expenditures, the remaining gaps need to be filled quickly and best efforts should be pursued to make the data publicly available by the end of 2008 at the latest.

The Council will come back to these issues in the first half of 2009 with an analysis of the trends in the composition of public expenditures. This should include an overview of progress made with the development of measurement tools and indicators on the quality of public finances and further work on the efficiency and effectiveness of R&D and education spending in all stages".

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