

Booms, Busts, and Education Spending



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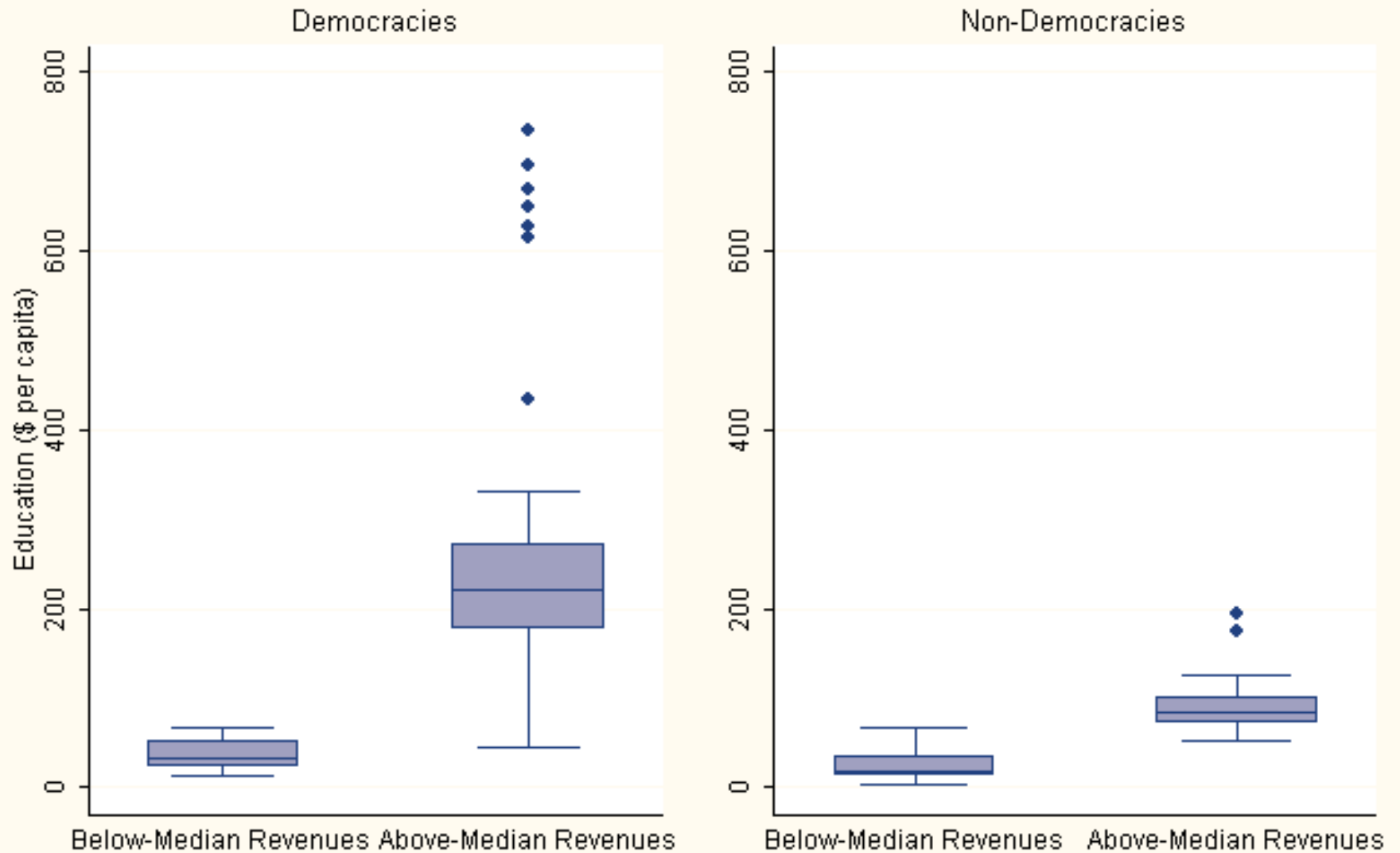
Spending in a Boom or Bust

- Do governments try to bolster popularity and win new supporters by using revenue windfalls to expand public services?
- If budgetary downturns force governments to rollback expenditures, when and where do social programs sustain extensive cuts?

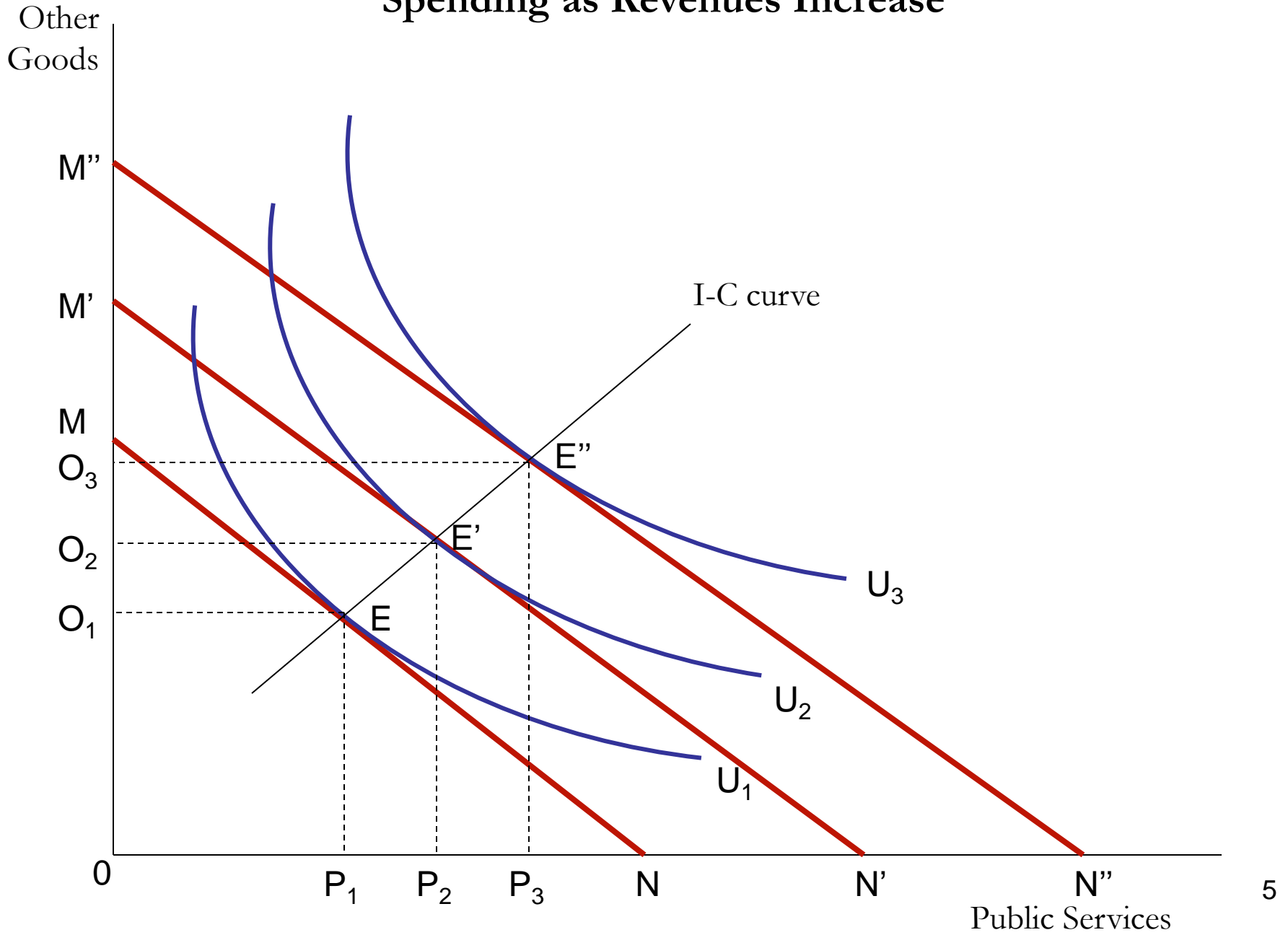
Existing Explanations of Spending

- Political institutions matter for spending; democracies should spend more.
- Democracies respond differently to economic crises (GDP per capita) than non-democracies.
- Exogenous constraints (IMF loans) also alter spending in democracies.
- We lack a consideration of the supply-side of spending (revenue).

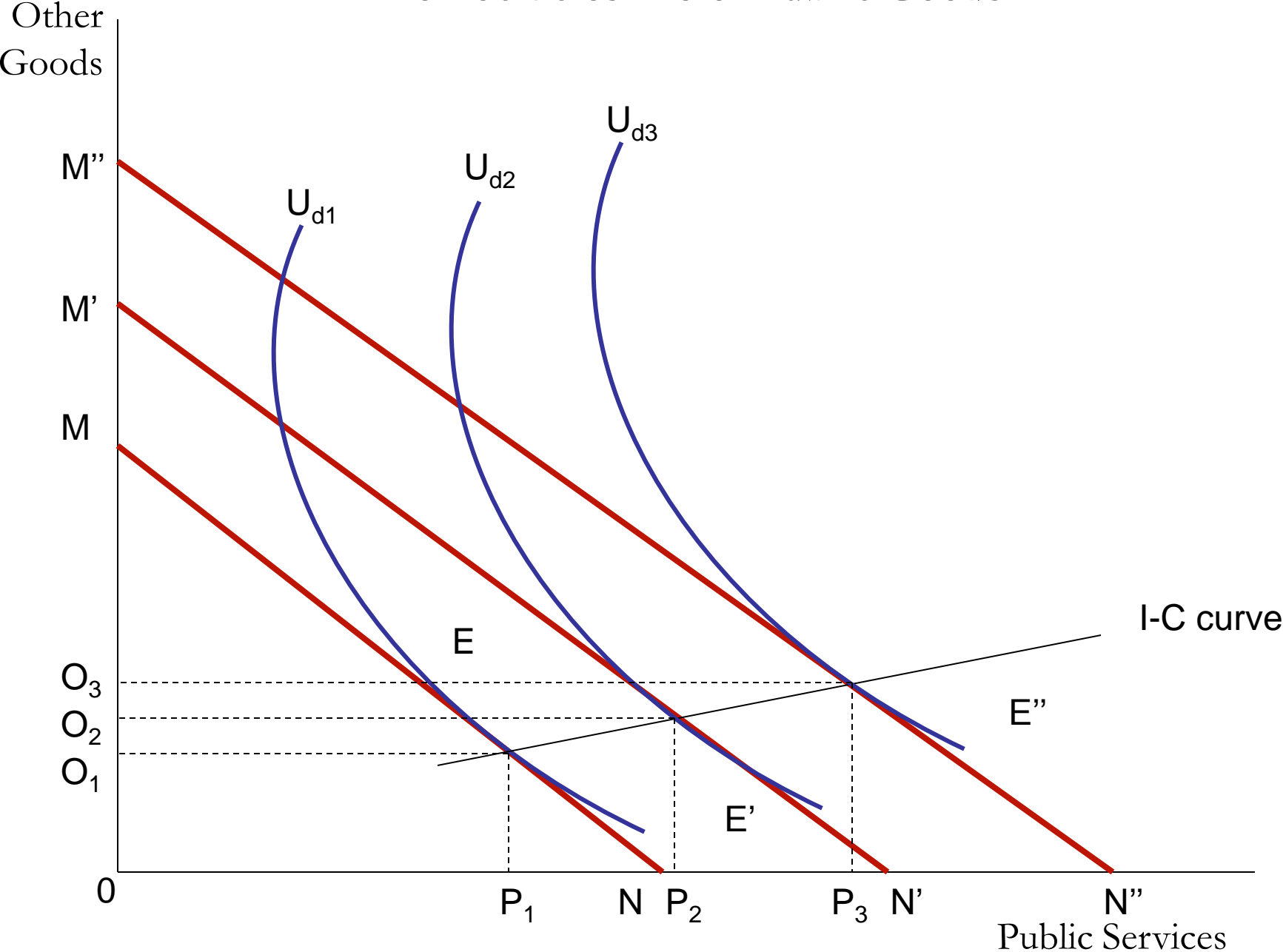
Revenue-Rich Countries Spend More on Education (by Regime)



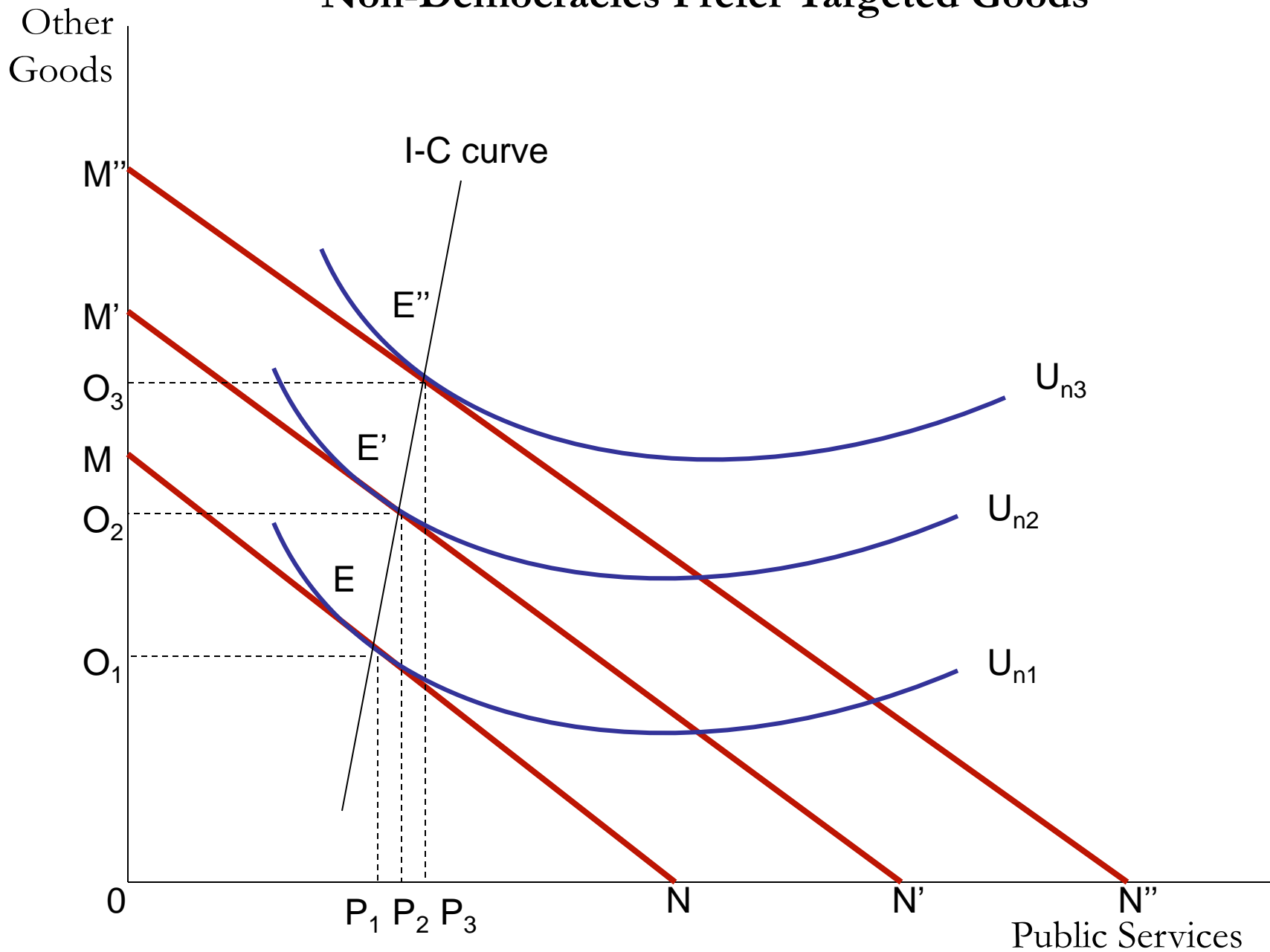
Spending as Revenues Increase



Democracies Prefer Public Goods



Non-Democracies Prefer Targeted Goods



Hypotheses

- **Hypothesis 1: Synchronized Spending**

The interaction between democratic institutions and change in revenues has no effect on spending for public services.

- **Hypothesis 2: Playing Catch Up**

The interaction between democratic institutions and change in revenues should *negatively* affect government spending on public services.

- **Hypothesis 3: The Growing Gap**

The interaction between democratic institutions and change in revenues should *positively* affect government spending on public services.

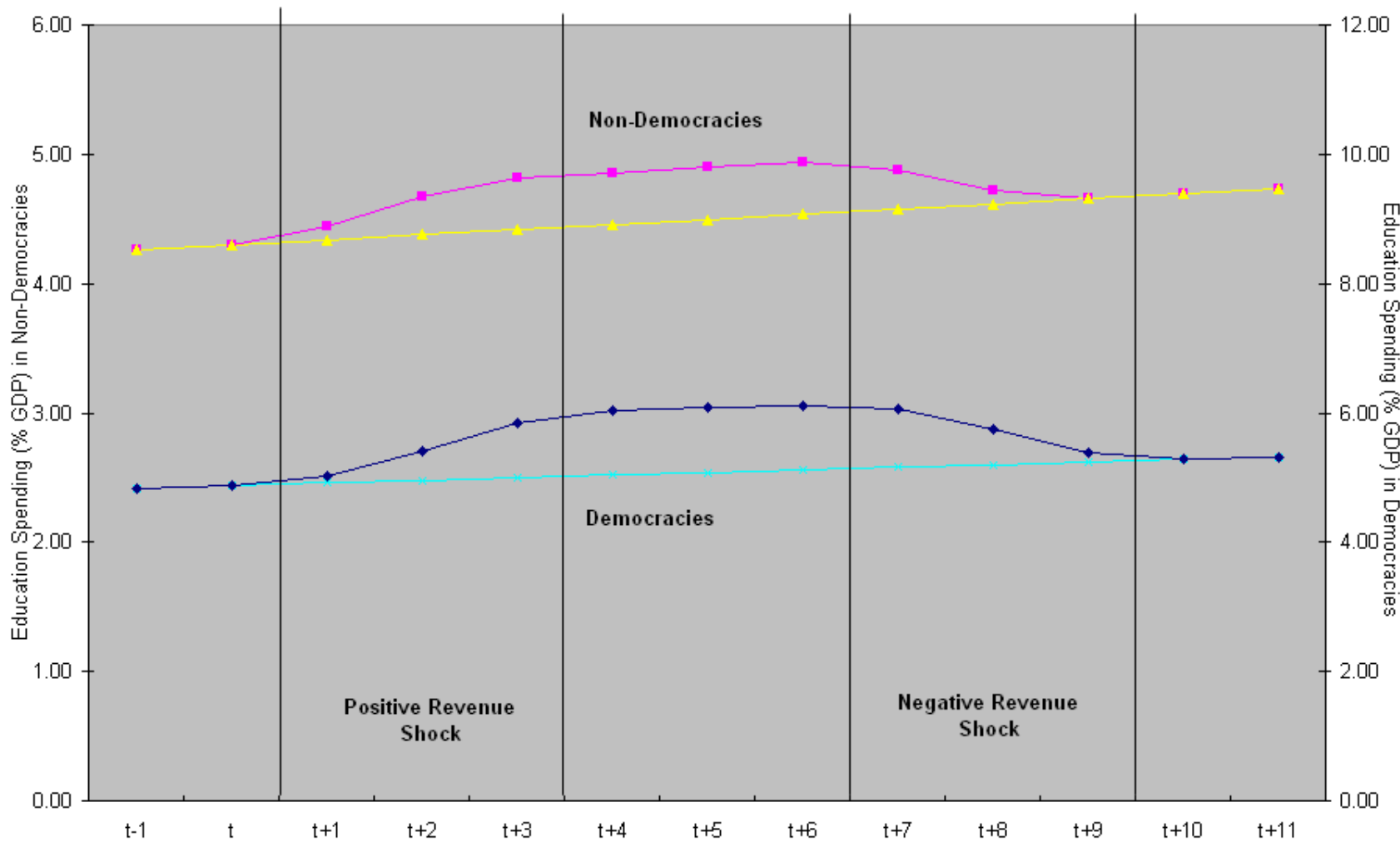
Empirical Strategy

- ECM with fixed effects
 - *DV*: Annual change in education spending
 - *IVs*:
 - Democracy
 - Gov't Revenues
 - Interactions of revenue variables with democracy
 - *Controls*:
 - GDP per capita, Growth, Trade, Debt burdens, Inflation, Age dependency ratio, Population, Time trend

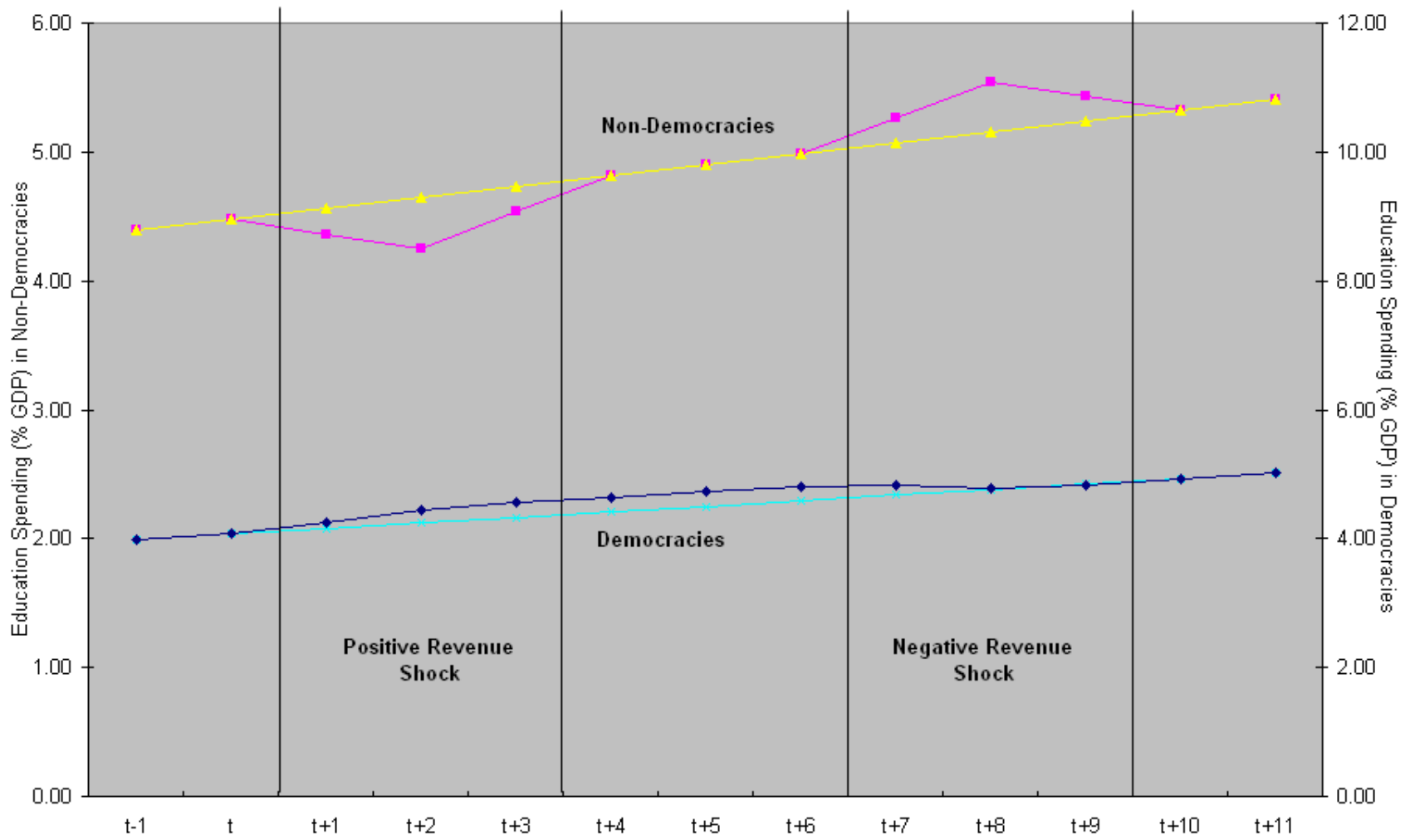
Two Datasets

- Global cross-national dataset
 - Larger sample, education spending data
- Post-Communist dataset
 - Smaller sample, better data
 - Atypically similar starting points regarding welfare state

Education Spending (Global Sample)



Education Spending (Post-communist Sample)



Conclusions & Implications

- Democracies & non-democracies adjust their spending priorities differently
 - In windfalls, democracies increase their education spending more than non-democratic countries.
- Revenues matter
 - Suggestive that democracies may favor education spending because on average they have more revenues to work with.