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EASTERN FINLAND

Regional allocation of public expenditure in Finland: Equity or efficiency?

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[RAVIT](#) – Julkisten rahavirtojen kohdentuminen maaseutu- ja kaupunkialueille -hanke

Maa- ja metsätalousministeriö on rahoittanut hanketta Maaseutupolitiikan neuvoston asettaman hankeryhmän esityksestä Mäkerän valtakunnallisiin maaseudun tutkimus- ja kehittämishankkeisiin suunnatuista varoista.



Motivation

- Decisions where the state spends its public expenditure are anything but trivial
 - Facilitates maintaining and renewing infrastructure and services, Creates externalities, Impacts internal cohesion and social stability, etc.
 - Even spatially-blind policies have regionally varying outcomes
- “How to geographically allocate the public resources necessary for development, given each country’s budget constraints” is “one of the most important decisions that governments face” (Luca & Rodríguez-Pose 2015)



Equity vs efficiency

- Equity = a system that reduces revenues in more affluent regions, while benefits flow into the less well-off regions
 - “Spatial justice”
- Efficiency = a system that allocates public expenditure with the aim of achieving economic competitiveness benefitting the already well-off regions
 - “Agglomeration benefits”



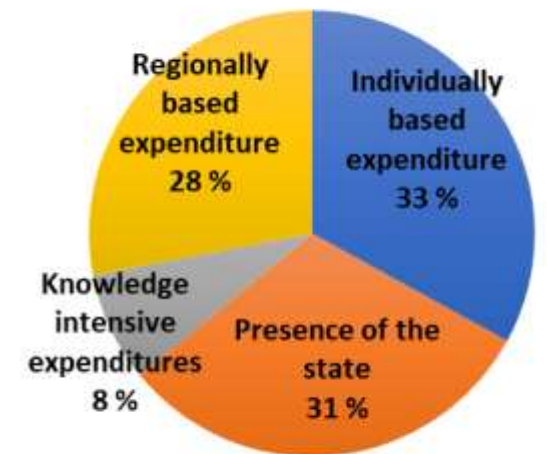
Empirical focus

- Research on the topic is limited
 - Mostly due to data availability (Blažek & Macešková 2010)
- Is public expenditure in Finland allocated to
 - Regions with the highest need (equity)?
or
 - To the core regions that can be expected to be in the best position to turn the expenditure into further regional development (efficiency)?



Data: Public expenditure

- Data on public expenditure compiled in RAVIT –project
 - Allocation of public (state) expenditure per municipality 2018–2021 (covers ca. 65% the total budget of the state)
 - Taxes paid to the state
- Categorized as four types of expenditure
 1. **Individually based expenditure** (incl. social benefits)
 2. **Regionally based expenditure** (incl. aid to agriculture, central government transfers, etc.)
 3. **Presence of the state** (incl. public procurement, wages of government employee, etc.)
 4. **Knowledge intensive expenditures** (incl. R&D funding to universities, BF funding, etc.)





Data: Distinguishing well-off and less well-off regions

| Indicator | Time | Definition | Source |
|---------------------------------|-----------|---|----------|
| DEPENDENCY INDEX | | | |
| Unemployment | 2018–2022 | Unemployed people, as % of labour force | Sotkanet |
| Youth unemployment | 2018–2022 | Unemployed young people, as % of labour force aged 18-24 | Sotkanet |
| Elderly poverty | 2018–2022 | The percentage of those receiving full national pension in the over-65 age group (i.e., those with little or no earnings-related pension describing low incomes in the retirement age population) | Sotkanet |
| Child poverty | 2018–2021 | Share of persons under 18 in the geographical area who live in households with incomes below the at-risk-of-poverty rate | Sotkanet |
| Morbidity | 2015–2019 | Describes regional differences in the prevalence of diseases and health problems at population level | Sotkanet |
| ECONOMIC INDEX | | | |
| Private R&D spending | 2015–2019 | Private research and development spending per population at the LAU1 level | StatFin |
| GDP | 2016–2020 | Gross domestic product per population at the LAU1 level | StatFin |
| Workplaces | 2017–2021 | Number of workplaces | StatFin |
| Income | 2017–2021 | Household disposable cash income, median | StatFin |
| Higher education | 2017–2021 | Share of persons with at least bachelor's degree out of the population aged 15 or over | StatFin |



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Preliminary results

We are still double-checking the public expenditure data

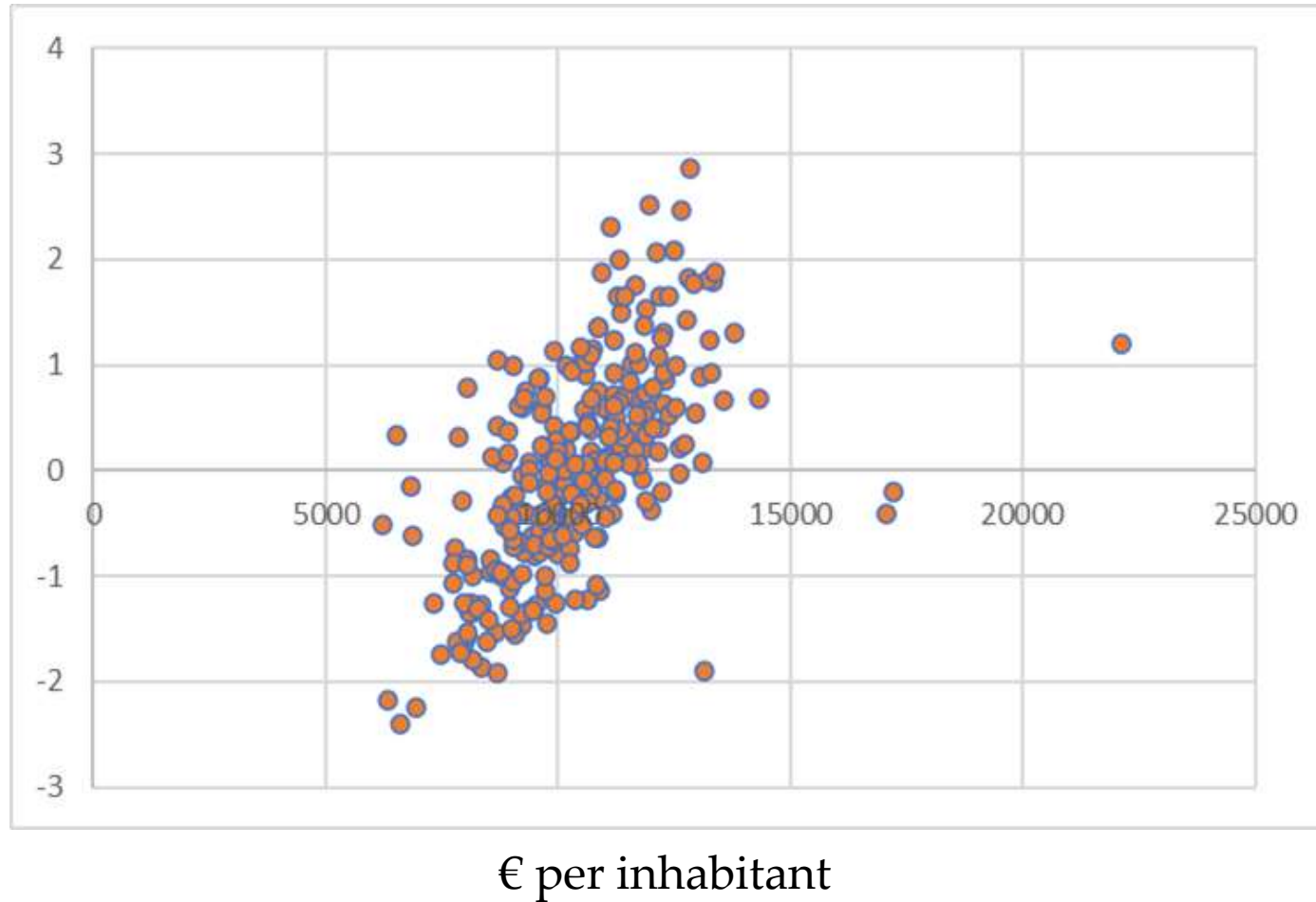


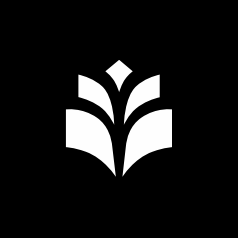
Individually based expenditure

Dependency index

Higher need

Lower need



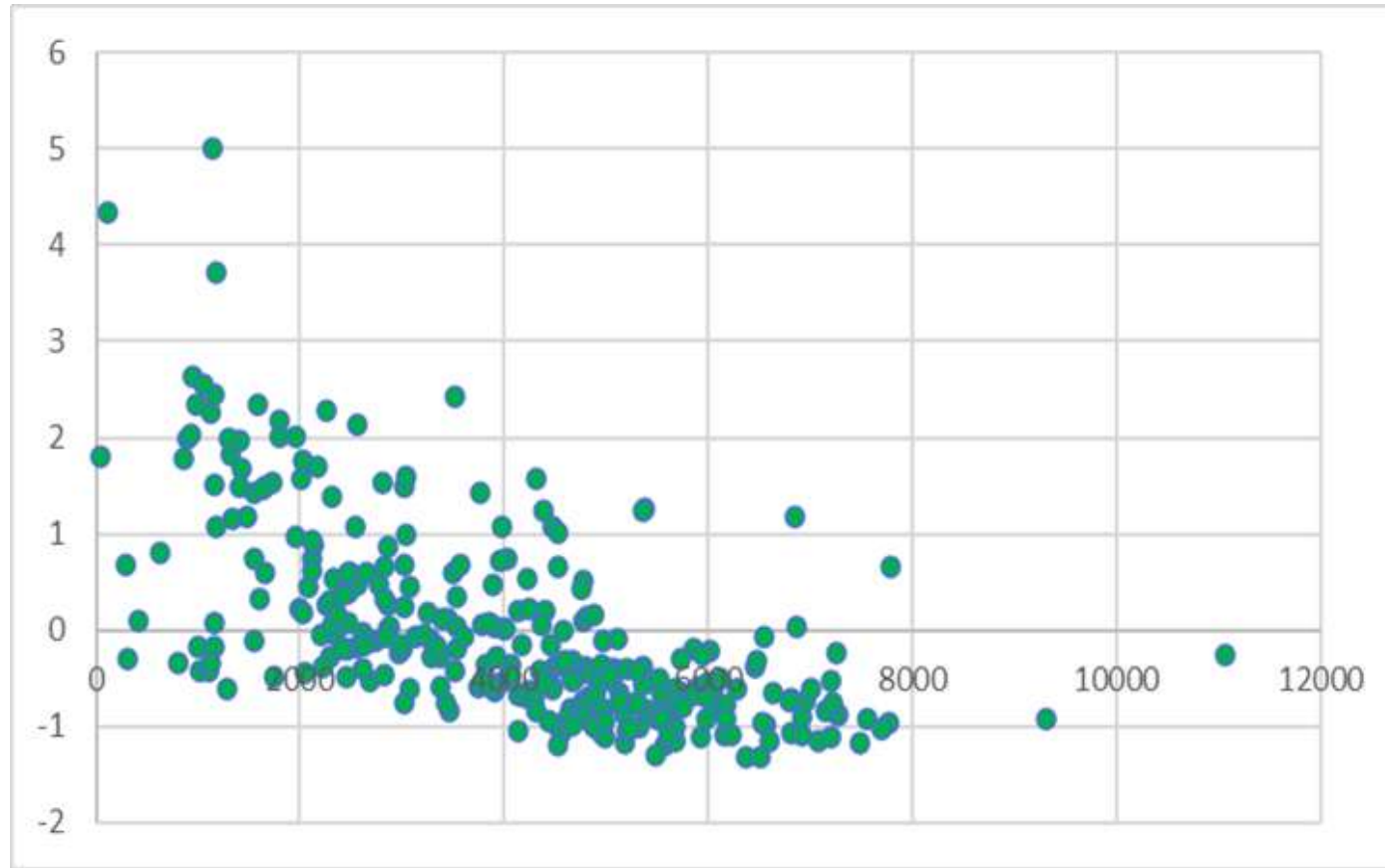


Regionally based expenditure

Economic index

High "performance"

Low "performance"



€ per inhabitant

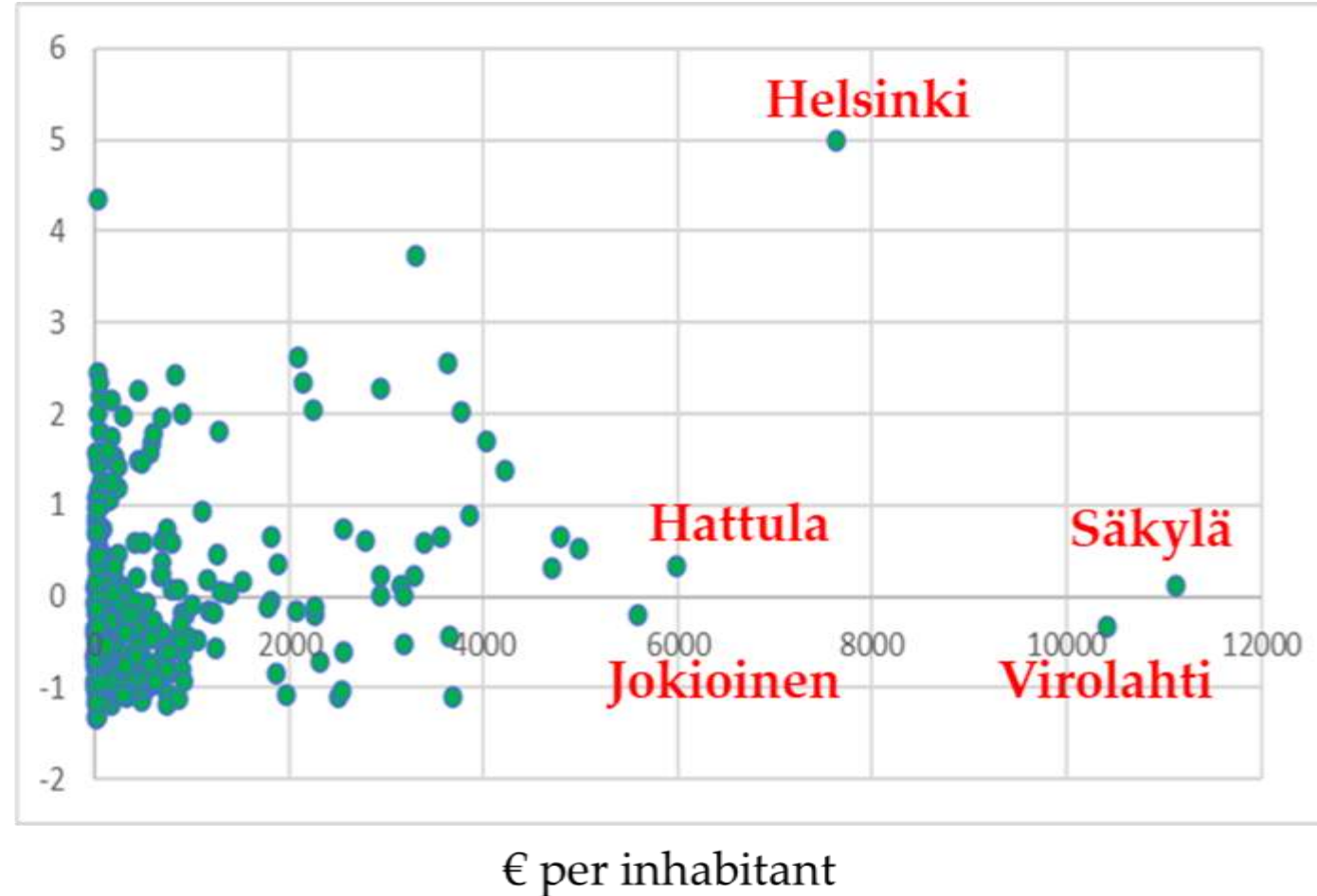


Presence of the state

Economic index

High "performance"

Low "performance"



More information: <https://uefconnect.uef.fi/tutkimusryhma/julkisten-rahavirtojen-kohdentuminen-maaseutu-ja-kaupunkialueille-ravit/>

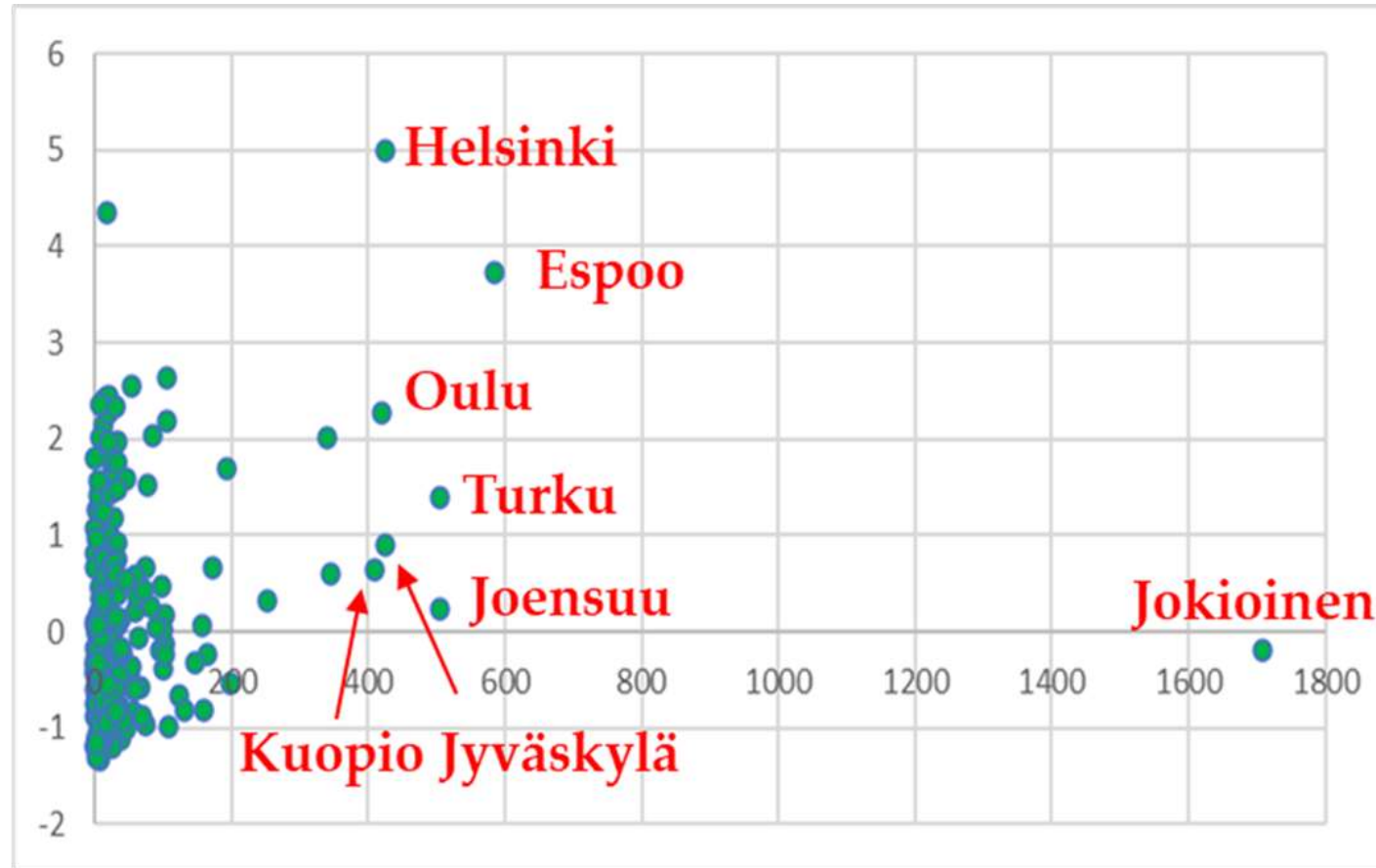


Knowledge intensive expenditure

Economic index

High “performance”

Low “performance”



€ per inhabitant

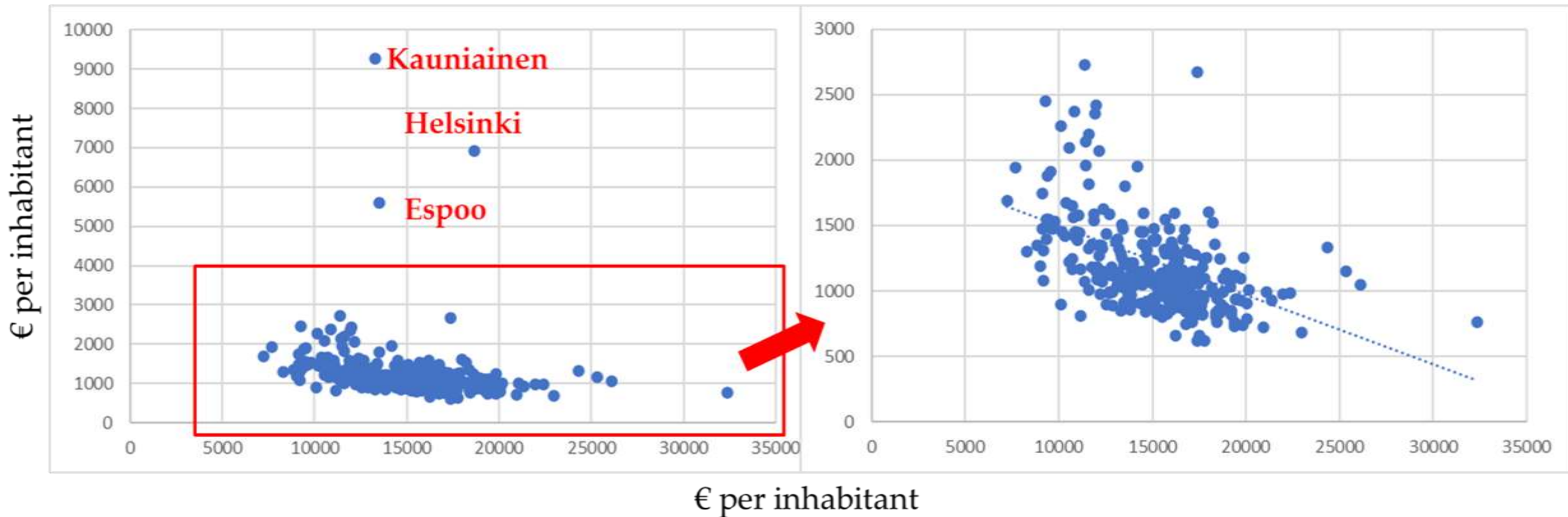
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Expenditure and taxes paid to the state (municipal etc. not included)

Taxes paid to the state

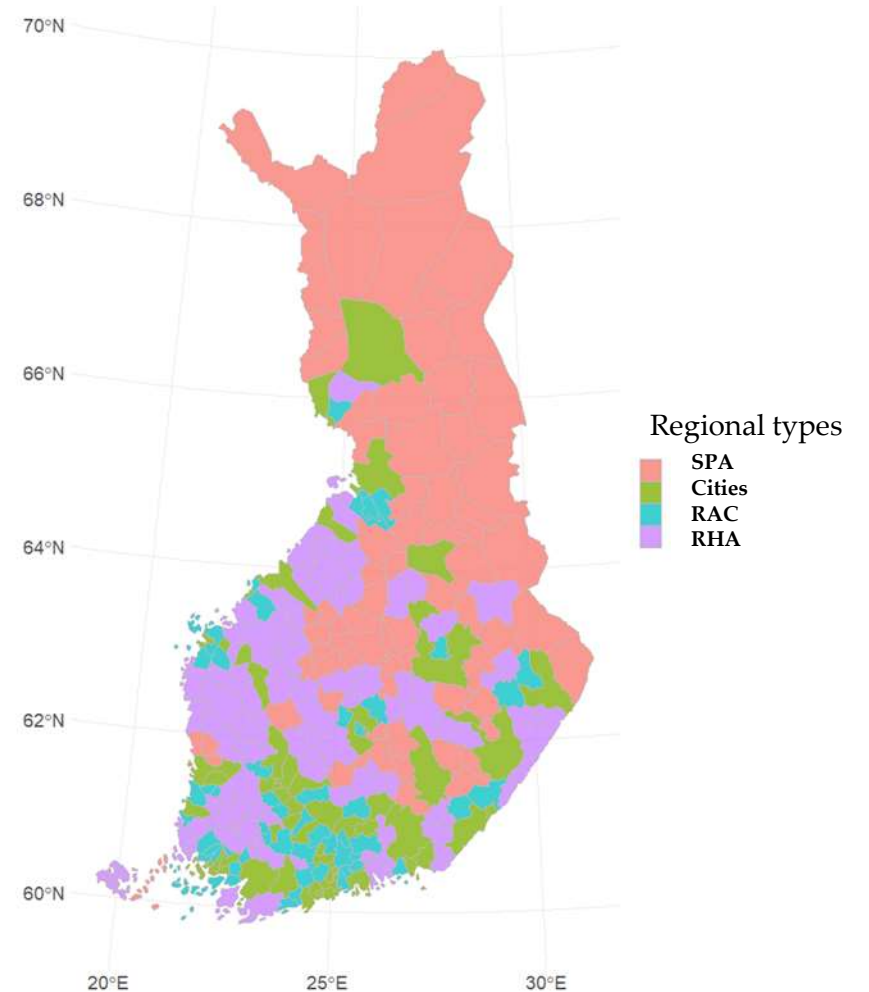
Taxes paid to the state





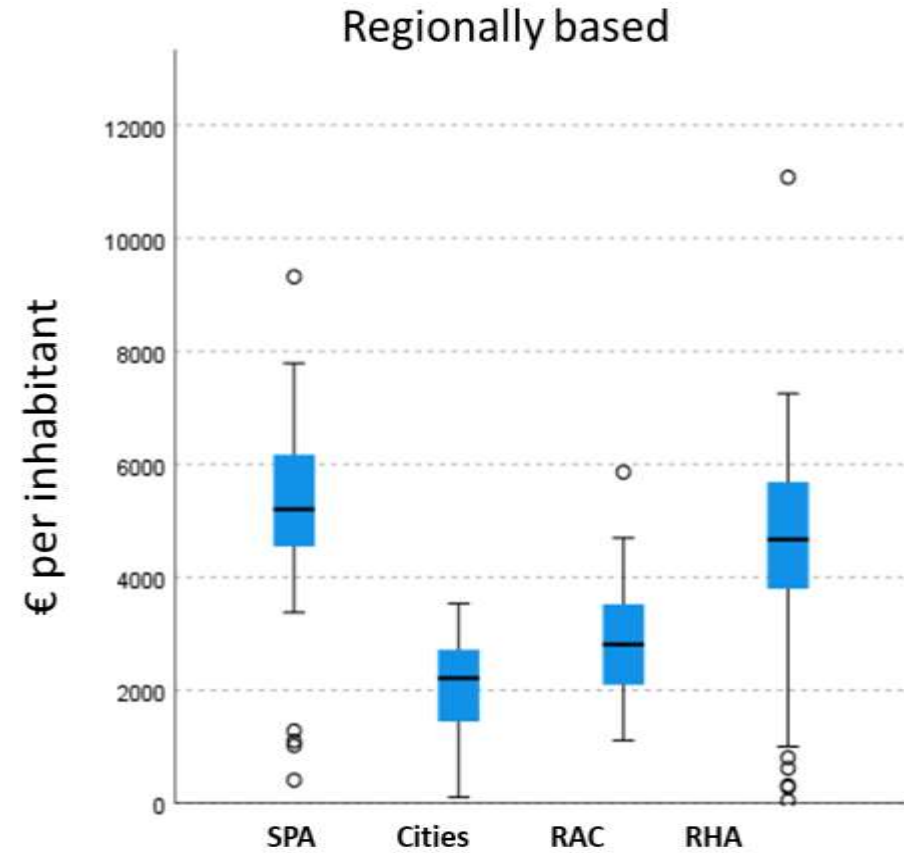
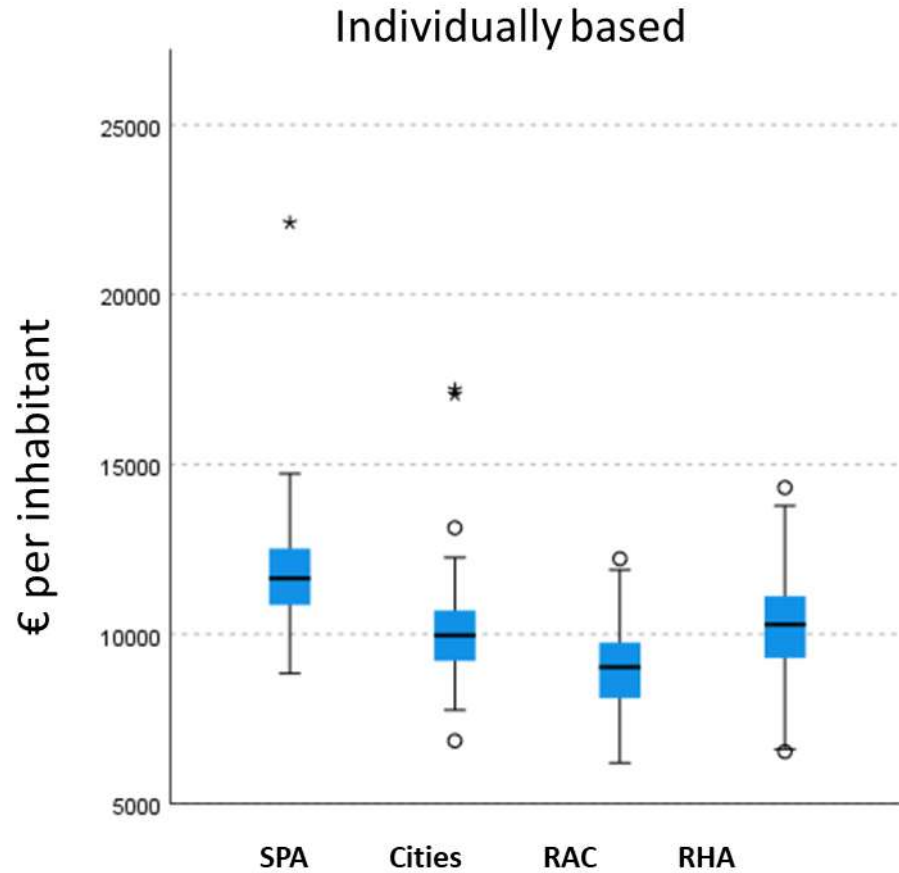
Regional typologies

- Do underlying regional structures affect the amount and composition of public expenditure?
- We visualize this by using the **urban-rural** typology of the Finnish Environment Centre
 - SPA = sparsely populated areas
 - RAC = rural areas close to urban areas
 - RHA = rural heartland areas



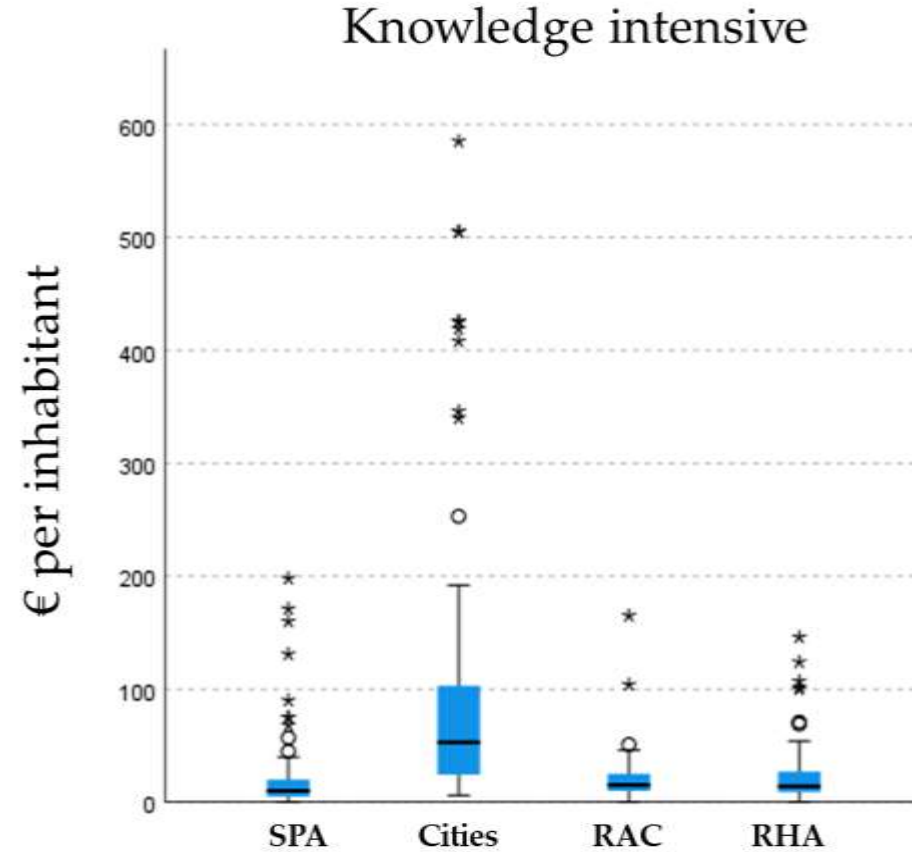
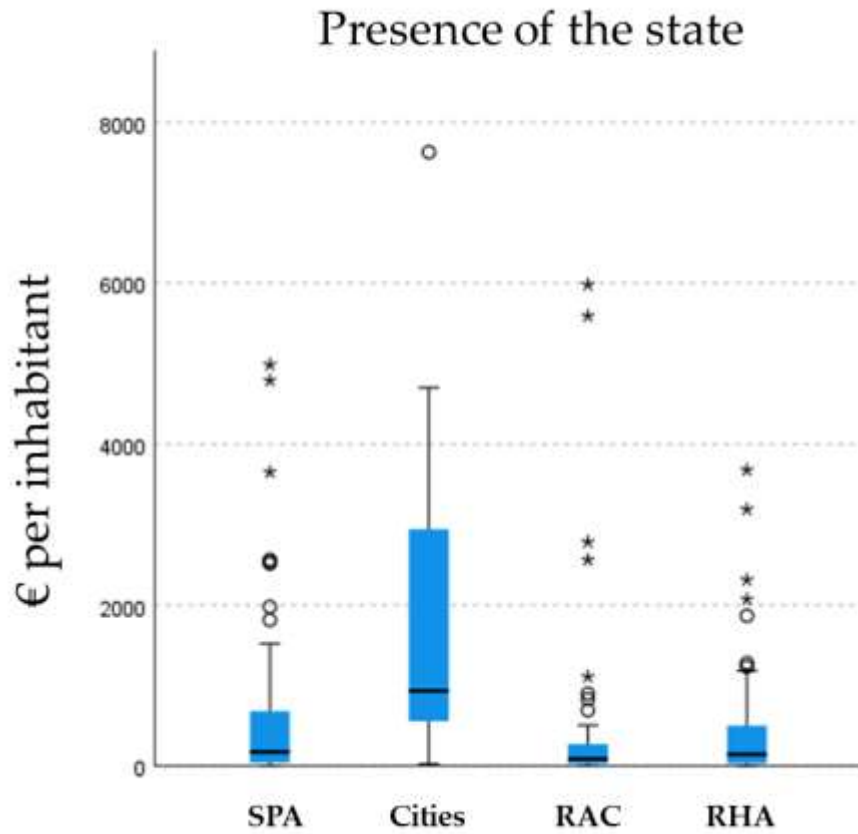


Expenditure by types 1/2





Expenditure by types 2/2





Conclusions

- The public expenditure “system” of Finland is driven by both equity and efficiency goals
 - **Individually and regionally based** expenditures balance development between the developed and less developed regions
 - Expenditure based on **presence of the state** and **knowledge intensive expenditures** are concentrated on few areas
 - The already well-off largest (university) cities in Finland get most of the “transformative or innovative” expenditure



Implications

- The “system” works well in balancing development towards those regions with lower well-being and weaker economies
- However, most regions (particularly rural areas) receive only very little expenditure aimed at “transformative or innovative” activities that could re-structure regional economies and improve their resilience
 - From this perspective, concerns can be raised about their future development potential
 - Are we leaving them behind?

Thank you!

<https://uefconnect.uef.fi/tutkimusryhma/julkisten-rahavirtojen-kohdentuminen-maaseutu-ja-kaupunkialueille-ravit/>



**We are in the middle
of knowhere. UEF.**



Key references

- Blažek, J., & Macešková, M. (2010). Regional analysis of public capital expenditure: To which regions is public capital expenditure channelled – to ‘rich’ or to ‘poor’ ones? *Regional Studies*, 44(6), 679-696.
- Luca, D., & Rodríguez-Pose, A. (2015). Distributive politics and regional development: Assessing the territorial distribution of Turkey’s public investment. *Journal of Development Studies*, 51(11), 1518-1540.