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EUROSYSTEM

OeNB-EUROSURVEY

The Euro in Central, Eastern  
and Southeastern Europe



# Attitudes toward public debt incurrence and public spending priorities in CESEE

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The views expressed are those of the authors and do not necessarily reflect the views of the Oesterreichische Nationalbank or the Eurosystem.

<https://www.oenb.at/en/Monetary-Policy/Surveys/OeNB-Euro-Survey.html>





## Motivation and Research Agenda

Given that public debt was only in a few CESEE countries of concern up to the 2008/2009 global financial crisis, it is interesting to study **how the comparatively strong increase in public debt levels in the post-crisis period has shaped household-level attitudes** toward public indebtedness, the specific composition of public spending and taxes or, more generally, demand for state intervention.

- Are respondents aware of the recent debt/GDP ratios and the recent dynamics of government debt?
- Which opinions do respondents have about public indebtedness and sustainable public finances?
- Are respondents satisfied with the delivery of public goods and services? How about their public spending priorities? How shall increases in preferred public services be financed?
- What are the attitudes towards policy conduct, the quality of public institutions and the role of the state in the economy?

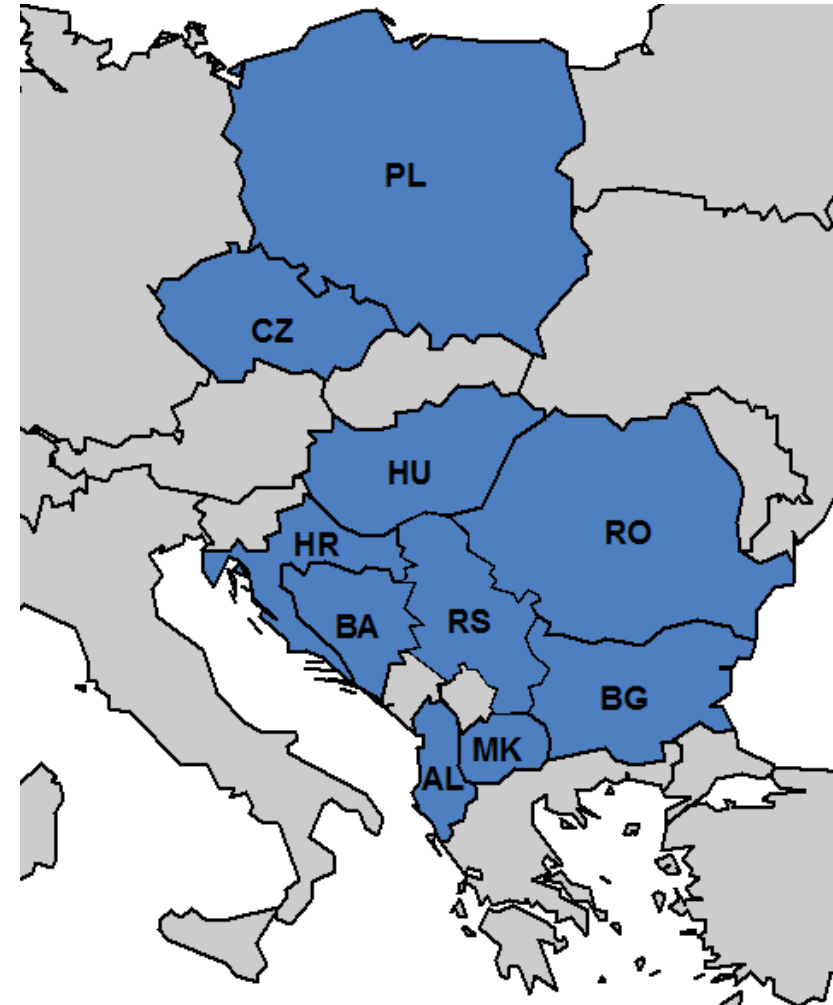


## A representative survey of CESEE individuals

- Currently, the OeNB Euro Survey is conducted in the ten CESEE countries
- Surveys are conducted in October/November. The first survey wave was in fall 2007.
- Samples consist of 1,000 randomly selected respondents per country and represent the population 18+ years.
- Samples are representative with respect to age, gender and regional distribution.

### Further details on technical issues

- <https://www.oenb.at/en/Monetary-Policy/Surveys/OeNB-Euro-Survey/Technical-Details.html>



A first glance at ...

## **I. RESPONDENTS' KNOWLEDGE ABOUT THE LEVEL AND THE DYNAMICS OF GOVERNMENT DEBT**

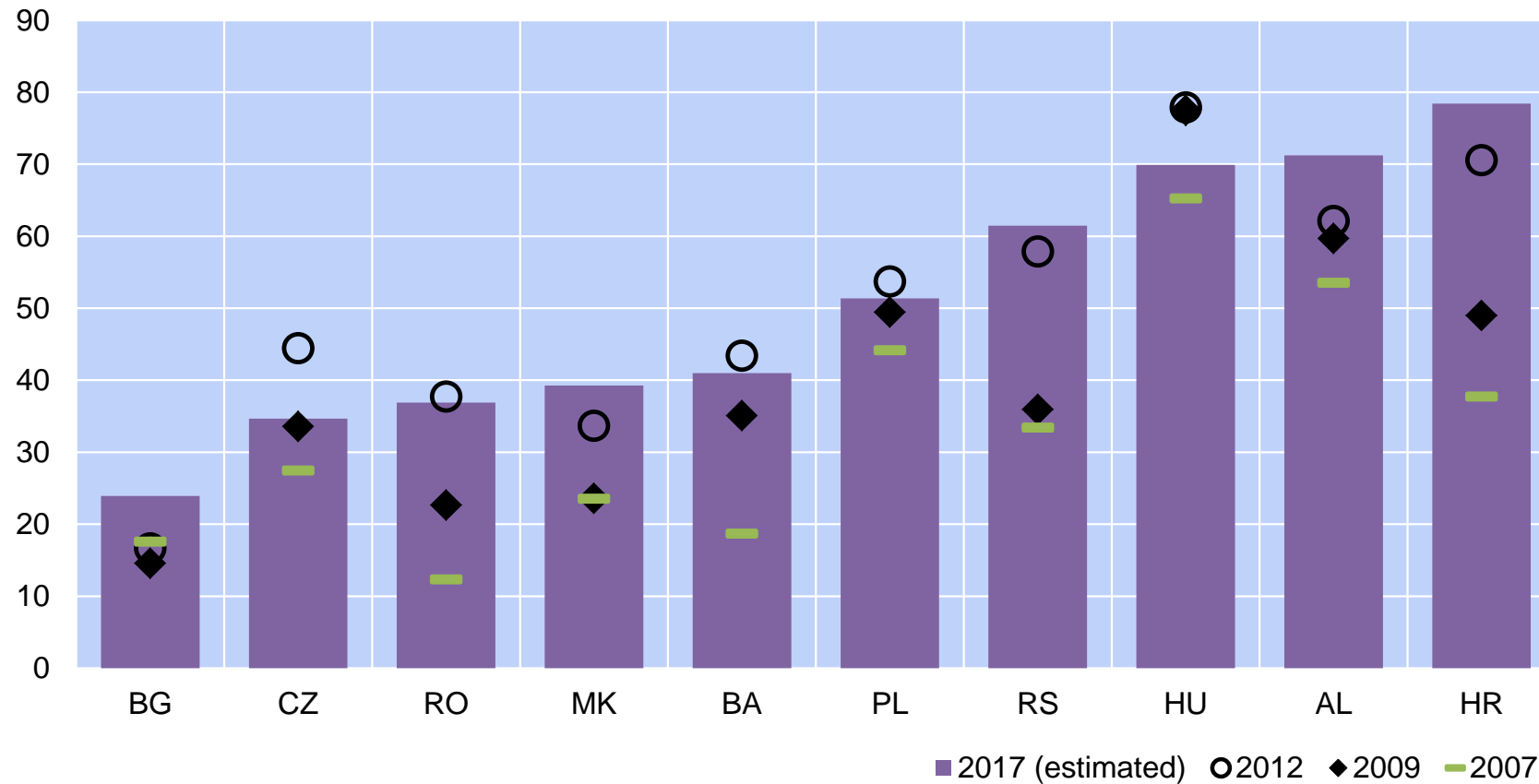


## Quite heterogenous debt levels across CESEE economies

Chart 1

### General government gross debt

% of GDP



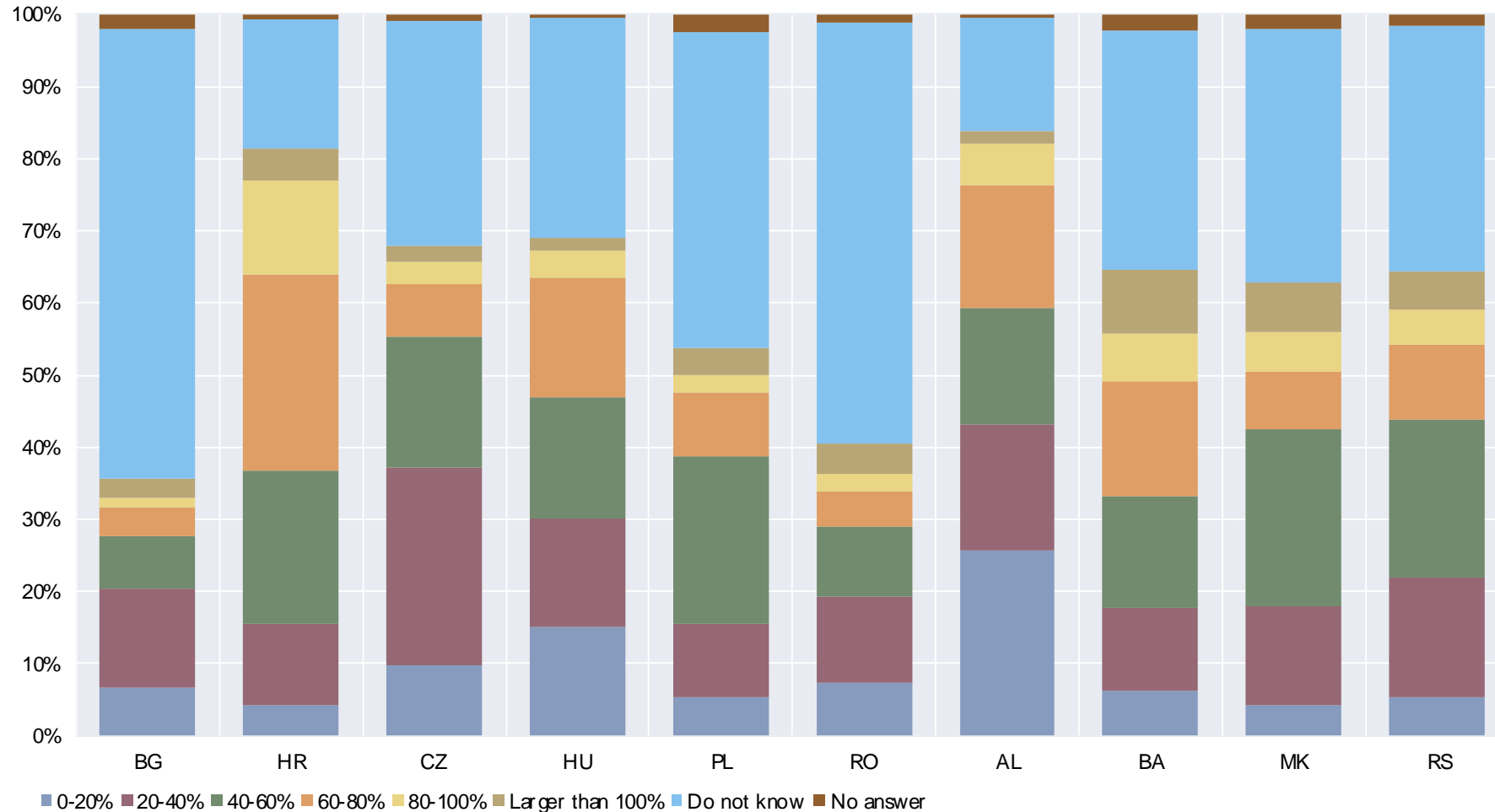
Source: IMF World Economic Outlook, as of April 2018.



## Are respondents from countries with higher debt/GDP ratios better informed?!

Q 91: Currently, how high is public debt as a percentage of GDP in [YOUR COUNTRY]?

% of respondents



### Assessment of the debt dynamics

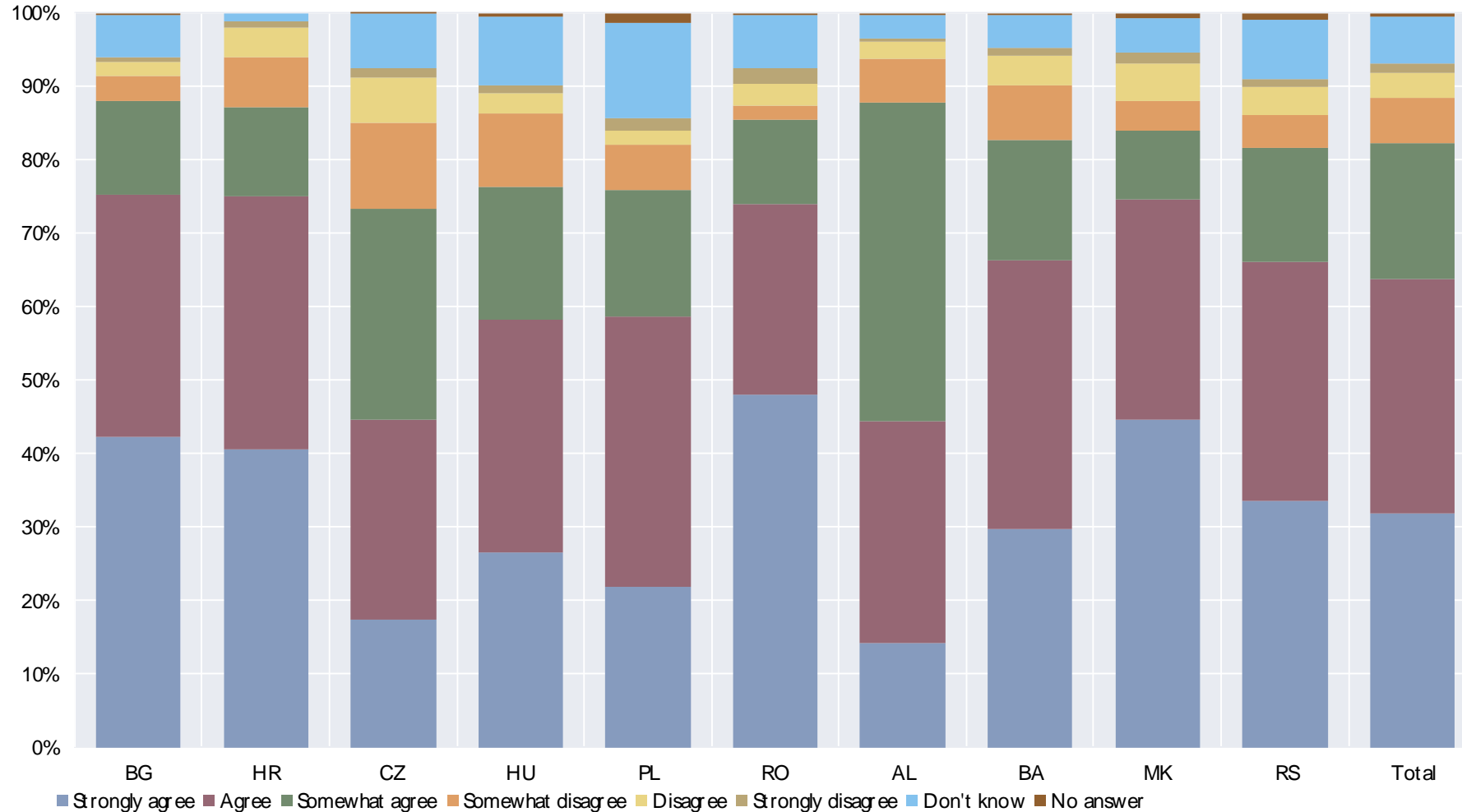
- Respondents from BG, HR, RO, BA and MA regard the development over the past 10 years rather worrisome
- Their assessment for the next 10 years is alert as well



## Attitudes regarding higher debt levels – in CEE and AL less sceptical (?)

Q 90a: Higher public debt levels diminish the chances of future generations

% of respondents

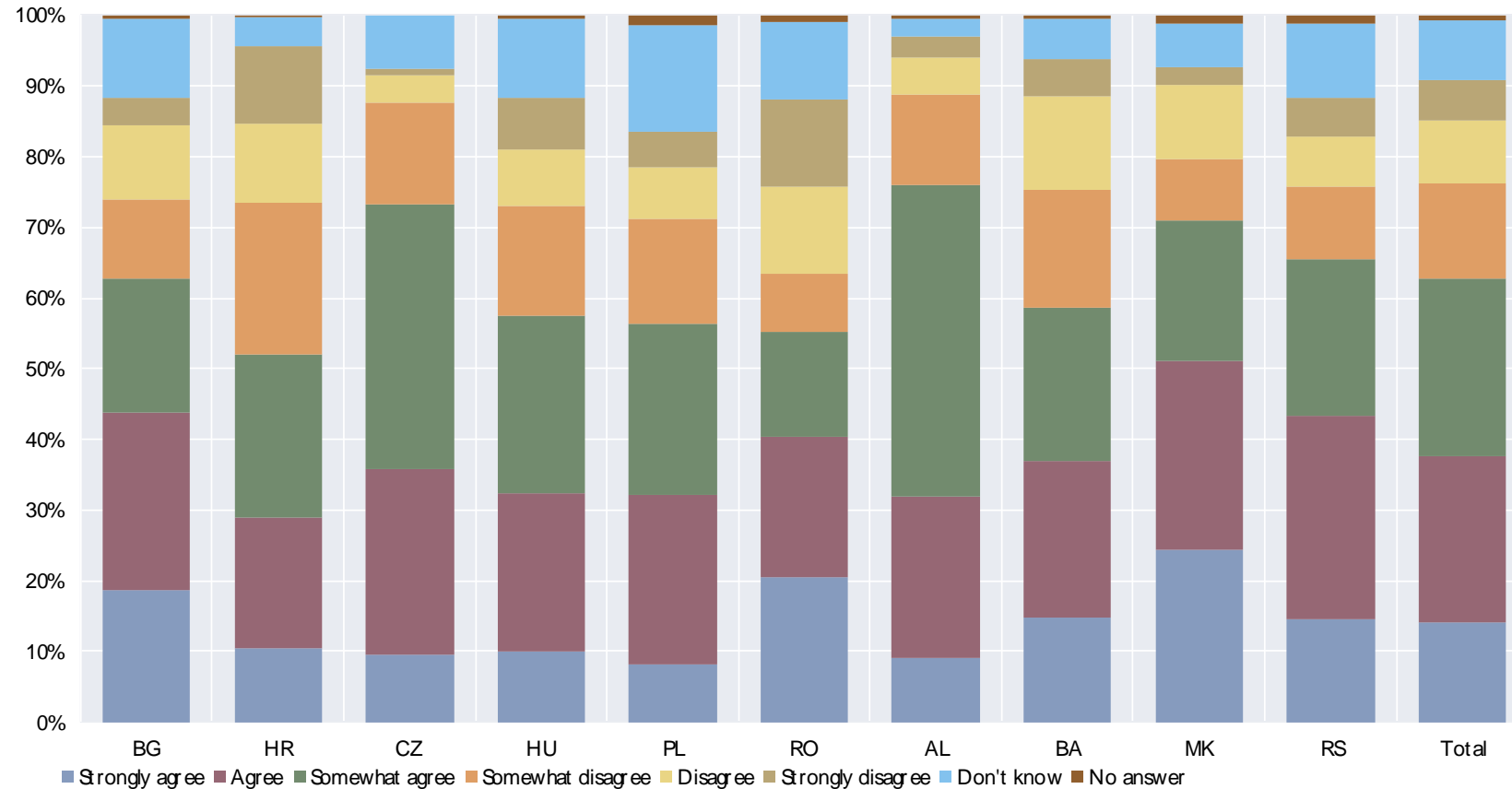




## Not so sure, whether public investments should be financed through debt?!

Q 90b: Higher public debt levels make it possible to conduct necessary investment today (e.g. into public infrastructure like schools and streets)

% of respondents



Source: OeNB Euro Survey (2018).



## **II. SATISFACTION WITH PUBLIC GOODS AND SERVICES AND PUBLIC SPENDING PRIORITIES**



# Dissatisfaction with public services rather high

## Types of public goods and services captured

- Social security e.g. unemployment benefits, public pensions, family & child care
- Public infrastructure e.g. road and rail network, public transport
- Education e.g. schools and universities
- Health e.g. public hospitals
- Public safety e.g. policy, justice, defence
- Economic development e.g. supporting SMEs, investments and regional development

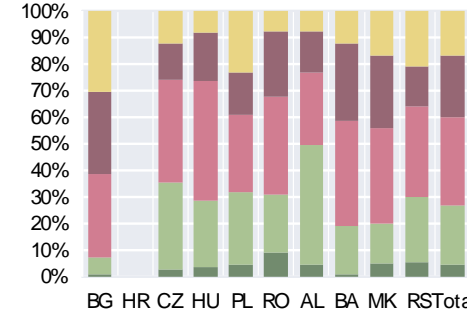
## At first glance CESEE respondent ...

- ...prefer to increase spending
- ...prefer a redistribution of public expenditures rather than financing higher spending with higher debt ... this even holds for infrastructure investments

## Satisfaction with the delivery of the public services

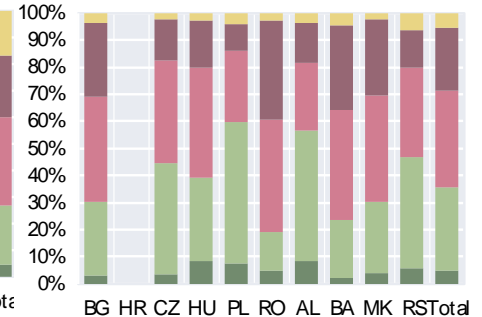
### Social security (e.g. unemployment, public pension, families & child care)

% of respondents



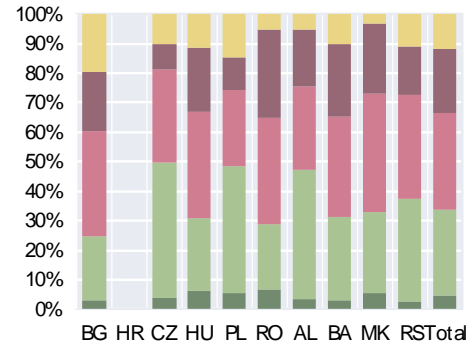
### Public infrastructure (e.g. road and railway network, public transport)

% of respondents



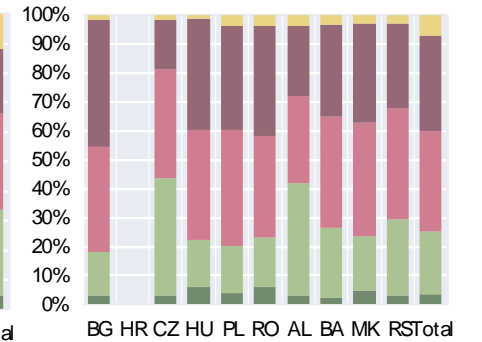
### Education (e.g. schools, universities)

% of respondents



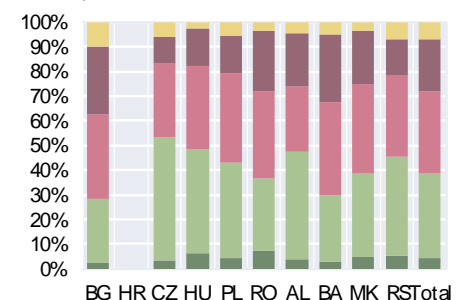
### Health (e.g. Public hospitals)

% of respondents



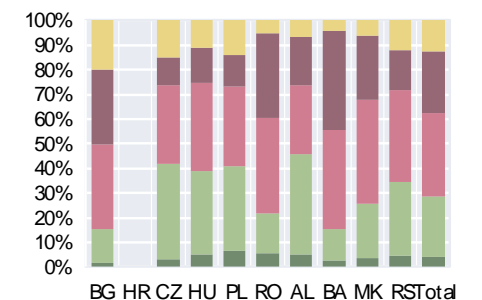
### Defence and public safety (e.g. Police, justice system)

% of respondents



### Economic development (e.g. SME, investment allowances, regional)

% of respondents



Source: OeNB Euro Survey, fall 2018.

■ Very satisfied ■ Satisfied ■ Dissatisfied ■ Very dissatisfied ■ Not relevant for me

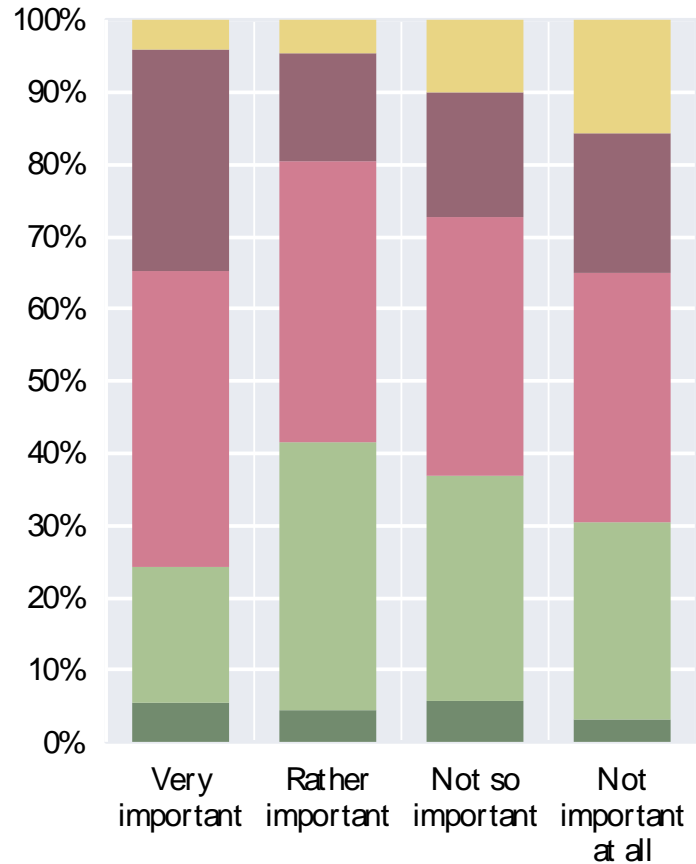


# Public welfare benefits: importance, satisfaction and preference for increasing/decreasing public spending

IB

## Importance for the individual budget and satisfaction with the delivery

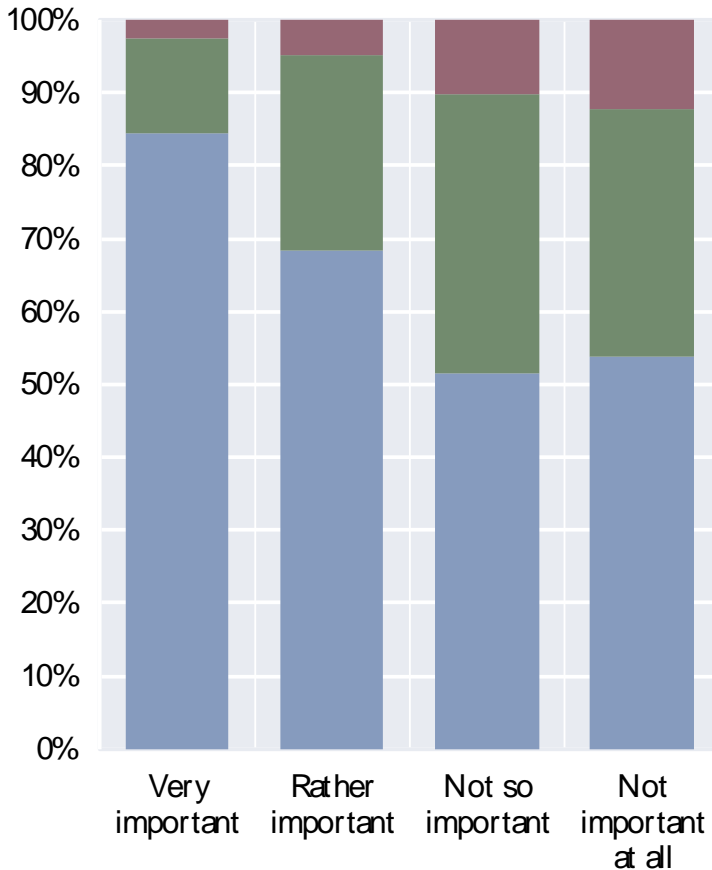
% of respondents



Very satisfied  
Satisfied  
Dissatisfied  
Very dissatisfied  
Not relevant for me

## Importance of public welfare benefits and preference for increasing/decreasing public spending

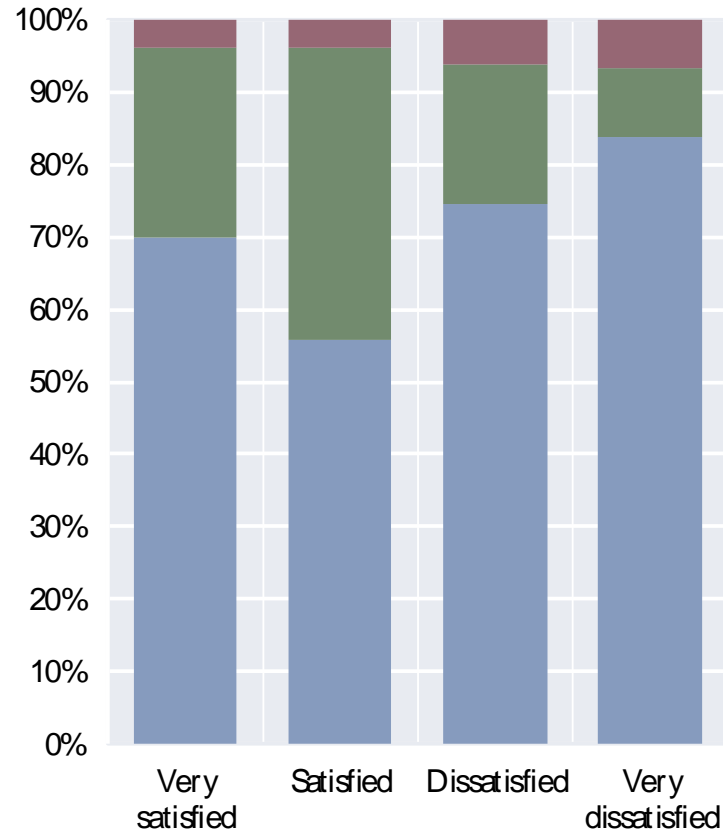
% of respondents



Increase  
Maintain  
Decrease

## Satisfaction with the delivery and preference for increasing/decreasing public spending

% of respondents



Increase  
Maintain  
Decrease



## First regression analyses reveal, that socio-economic characteristics matter

### Who is dissatisfied with the public goods and services?

- Respondents in BG, HU, BA, MK and to a lesser extent RO and RS
- Richer HH: public safety, economic development, education
- Poorer HH: social security, infrastructure, health
- Social security: retired, poorer HH
- Education: higher education

### Less dissatisfied are...

- Higher life satisfaction generally
- Unemployed, retired, AL

### Who prefers an increase of public spending?

- Respondents with higher dissatisfaction
- Higher education and life satisfaction
- BG, HU, RO, AL, MK, RS
- More for education: students and high income
- More for health: older, retired, high income
- More for social security: retired

### Who is less likely to join the „increase“ group?

- Capital city residents
- Richer HH are less likely to support increases for social security, infrastructure and public safety

Box published in the EBRD Transition report 2019/20

### **III. STILL COUNTING ON THE STATE TO PROVIDE JOBS?**



### III. Still counting on the state to provide jobs?

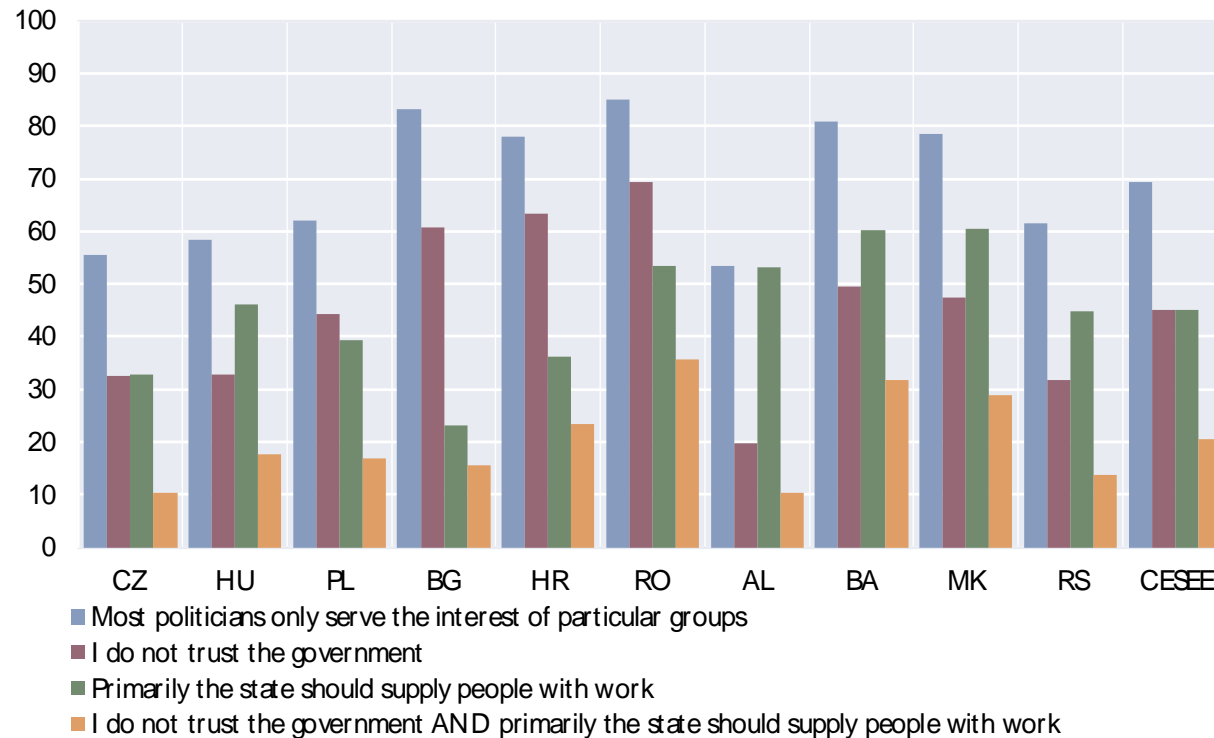
- Attitudes toward policy conduct, the quality of public institutions and the role of the state in the economy are only rarely explored using cross-country survey data
- OeNB Euro Survey included questions on
  - individual attitudes toward policy conduct building on Hayo and Neumeier, 2017
  - and state intervention in the economy; similarly to LiTS I, 2006
- Preliminary results reveal that the **general public is remarkably disappointed** with policy conduct.
- At the same time, while trust in governments is lacking, 30 years after the end of communism there is a **surprisingly high demand for state intervention** in the economy.



## Remarkable disappointment with policy conduct, yet 45% of respondents across the region argue that the state should be responsible for providing jobs

### Skeptical views dominate the public perception of policy conduct

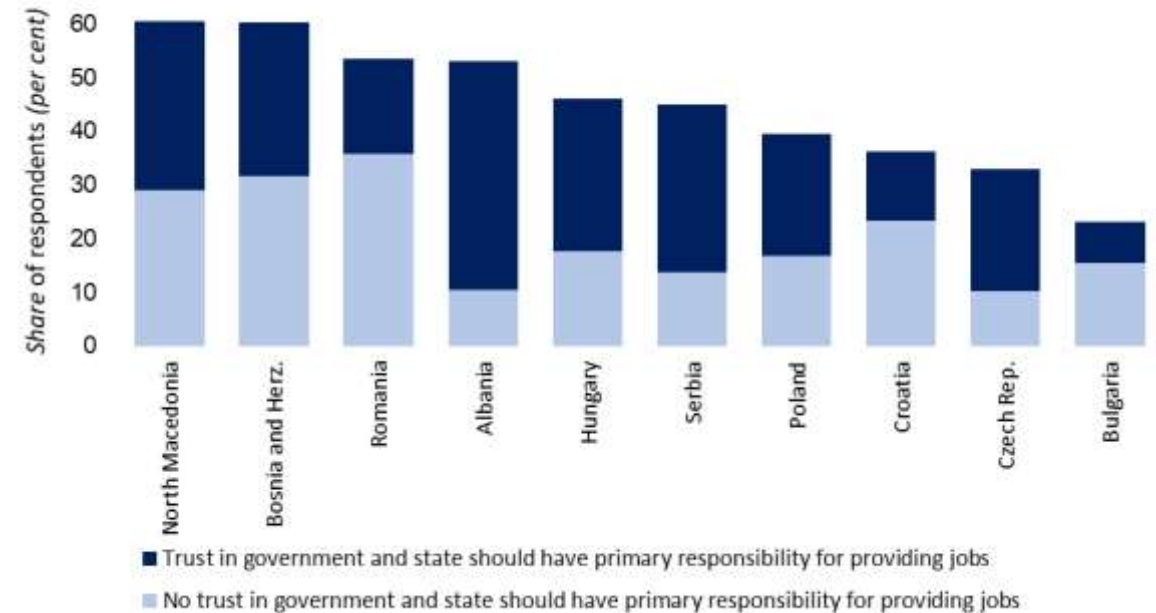
% of respondents who agree with the respective statement



Source: OeNB Euro Survey 2018.

Note: Weighted percentages excluding respondents answering "Don't know" or who refused to answer.

### Many people believe that the state should have primary responsibility for providing jobs



Source: OeNB Euro Survey (2018) and authors' calculations.

Note: Respondents who reply "don't know" or decline to answer are excluded when calculating weighted percentages.

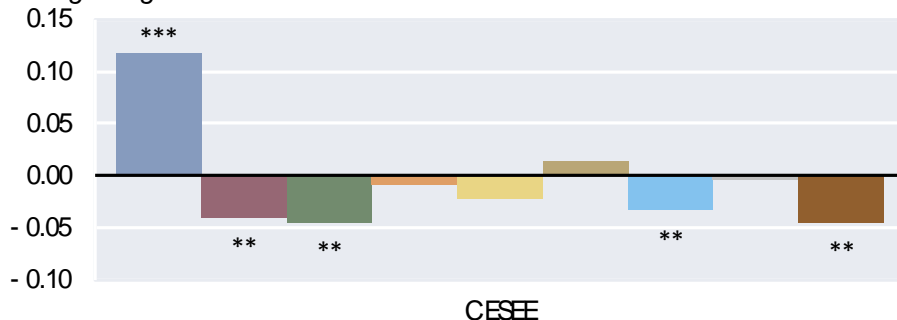


# Regression analysis reveals that potentially marginalized groups are more likely to expect the state to provide people with jobs

## Socioeconomic factors associated with the main variables of interest

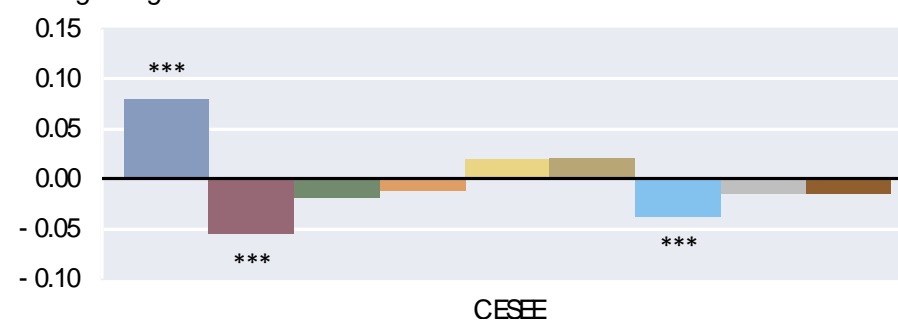
### Most politicians only serve the interest of particular groups

Average marginal effects



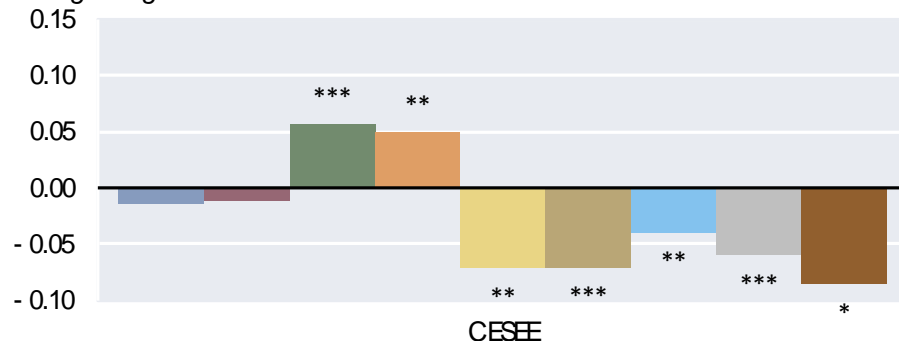
### I do not trust the government

Average marginal effects



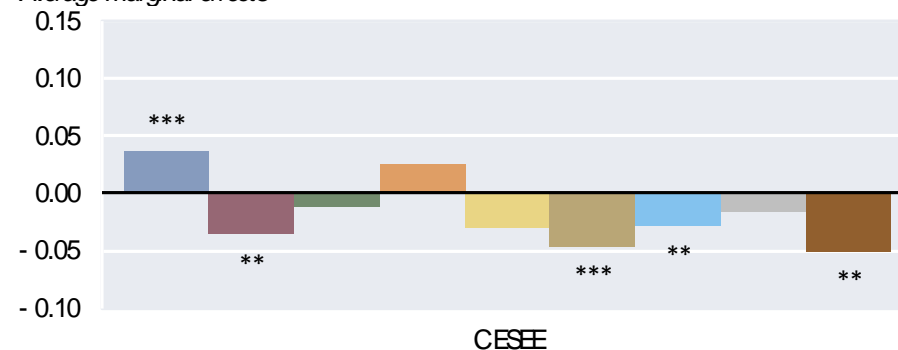
### Primarily the state should supply people with work

Average marginal effects



### Subgroup: Distrust the government AND the state should supply people with work

Average marginal effects



Had to cut back on basic consumption

Public sector or work experience

Owns a secondary residence or other real estate

Received unemployment benefits

High level of education

Respondent reports savings

Receiving public welfare benefits

High level of household income

Capital city resident

Source: authors calculation based on OeNB Euro Survey wave 2018.

Note: Columns represent average marginal effects from probit estimations with country fixed effects; standard errors are adjusted for clustering at the regional level. \*\*\*, \*\*, \* denote that the average marginal effect is statistically different from zero at the 1%, 5% and 10% level, respectively. The four explanatory variables enter as dummy variables. Additional dummy variables control for age, gender, party preference, employment status, religion, interest in politics, life satisfaction, housing condition relative to neighboring homes, prevalence of savings and household size (not shown). The CESEE group comprises all ten OeNB Euro Survey countries.





## Main takeaways

- When institutions are weak, private firms may find it easier to abuse their market power or political connections. This may result in demand for greater state ownership and regulation, even though people have little confidence in public institutions.
- Indeed, around 20% of respondents report a lack of trust in government but still agree that the state should have primary responsibility for providing jobs.
- In conclusion, these survey results suggest that support for state intervention in the economy remains relatively strong.
- **Improving the quality of economic and political institutions and building effective social safety nets can go a long way towards strengthening support for the idea that the private sector should play a greater role in the economy.**
  - Confirming former research results from Aghion et al. (2010).

# Thank you for your attention

<https://www.oenb.at/en/Monetary-Policy/Surveys/OeNB-Euro-Survey.html>

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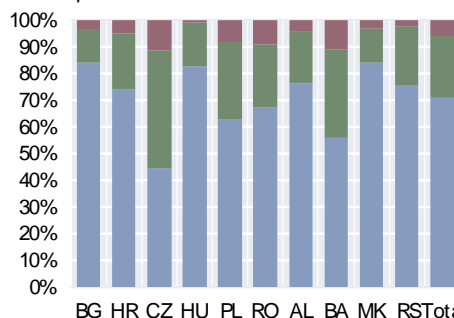




## Over the next 10 years the level of public spending should be...

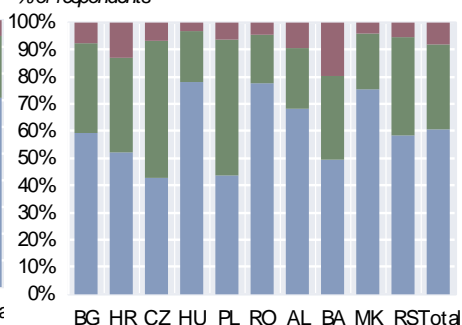
### Social security (e.g. unemployment, public pension, families & child care)

% of respondents



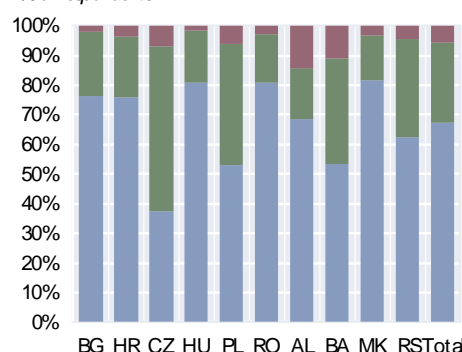
### Public infrastructure (e.g. road and railway network, public transport)

% of respondents



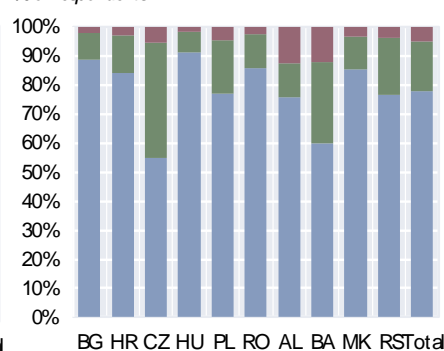
### Education (e.g. schools, universities)

% of respondents



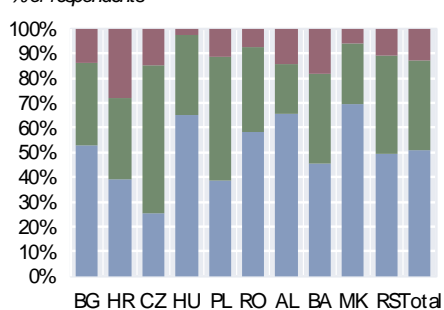
### Health (e.g. Public hospitals)

% of respondents



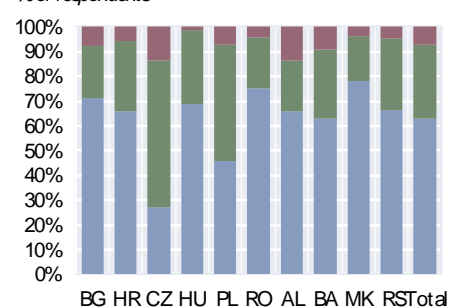
### Defence and public safety (e.g. Police, justice system)

% of respondents



### Economic development (e.g. SME, investment allowances, regional)

% of respondents

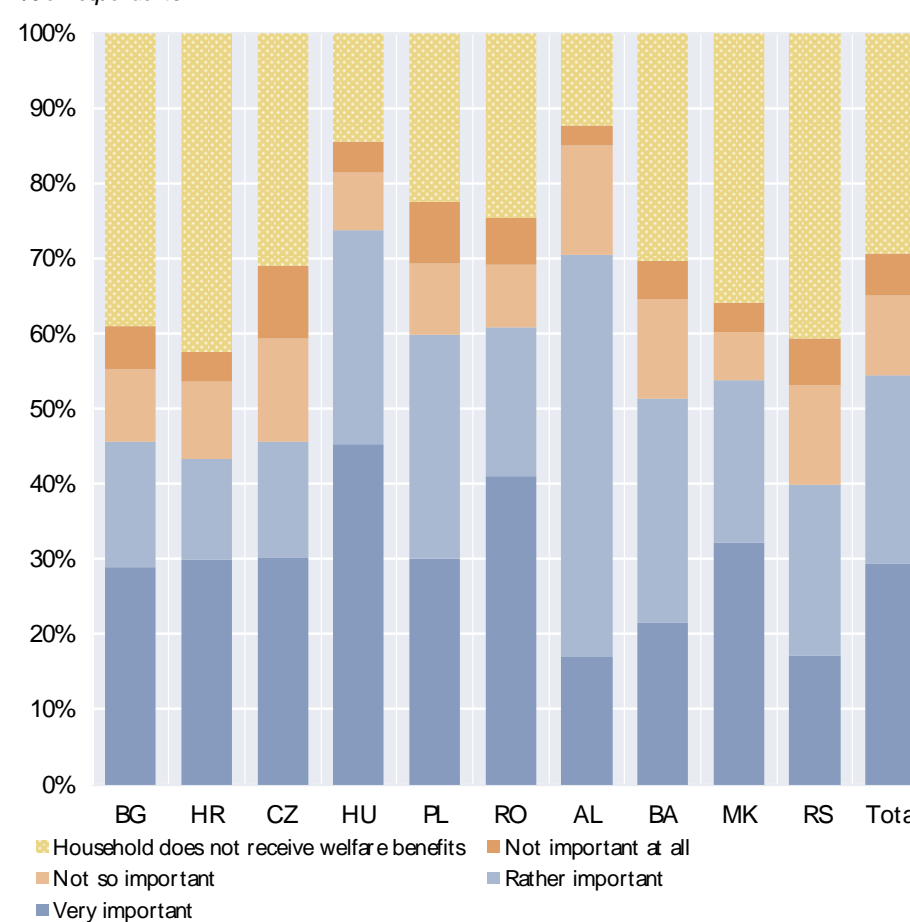


Source: OeNB Euro Survey, fall 2018.

■ Increased ■ Maintained ■ Lowered

## How important are public welfare benefits for your individual or household budget?

% of respondents



Source: OeNB Euro Survey, fall 2018.

Note: Weighted percentages; excluding respondents answering "don't know" or who refused to answer.