

Abstract

We estimate the impact of public expenditure on Active Labor Market Policies (ALMPs) and the European Social Fund (ESF) on the employment rate using panel data from 28 European countries (1985-2011) and an alternative sample of the 17 Spanish regions (1989-2010). The estimations take into account the endogeneity of explanatory variables, the dynamic behavior of their relationship and, for the set of regional data, the spatial dependence among regions. Results support the hypothesis that expenditure in ALMPs and ESF transfers are more beneficial for employment than aggregate public expenditure. In addition, countries with larger ESF transfers observe a larger efficiency of their ALMPs and employment tends to rise as Spanish regions gain fiscal autonomy.