Research strategy includes deploying both fixed effects and dynamic panel models, using the same group of control variables. In case of fixed effects regression, the model is as follows:

$$Ineq_{it} = \beta_1 EduExp_{it} + \beta_2 Var_{it} + \alpha_i + \epsilon_{it}$$

In case of dynamic panel regression model, difference GMM approach was adopted, following the methodology presented by Arellano and Bond (1991):

$$\Delta Ineq_{it} = \gamma \Delta Ineq_{it-1} + \beta_1 \Delta EduExp_{it} + \beta_2 \Delta Var_{it} + \delta_{it}$$

The research is based on a sample of 24 European countries, divided into two heterogeneous subgroups (west vs. east) and includes the period from 1995 to 2020.

Conclusions

1. Level of government expenditures on education per capita may be considered as a weakly significant variable for determining the level of income inequality in European countries (significant only at p-value < 0.1).
2. Government expenditures on education (per capita) seem to reduce income inequality. This relationship is the most evident regarding spending on tertiary education (p-value < 0.01).
3. Government spending on education (per capita) is likely to have a greater impact on the decrease of income inequalities in less developed Eastern European countries than in Western European countries.