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# Well founded?

## Learning from public investment funds in the Netherlands

Pieter Hasekamp

February 7, 2022

[www.cpb.nl](http://www.cpb.nl) | [@CPBnl](https://twitter.com/CPBnl)

# Content

1. Introducing the CPB
2. Public investment in the Netherlands
3. Budgetary rules and public investment funds
4. Policy challenges for the new government
5. Lessons for public investment funds



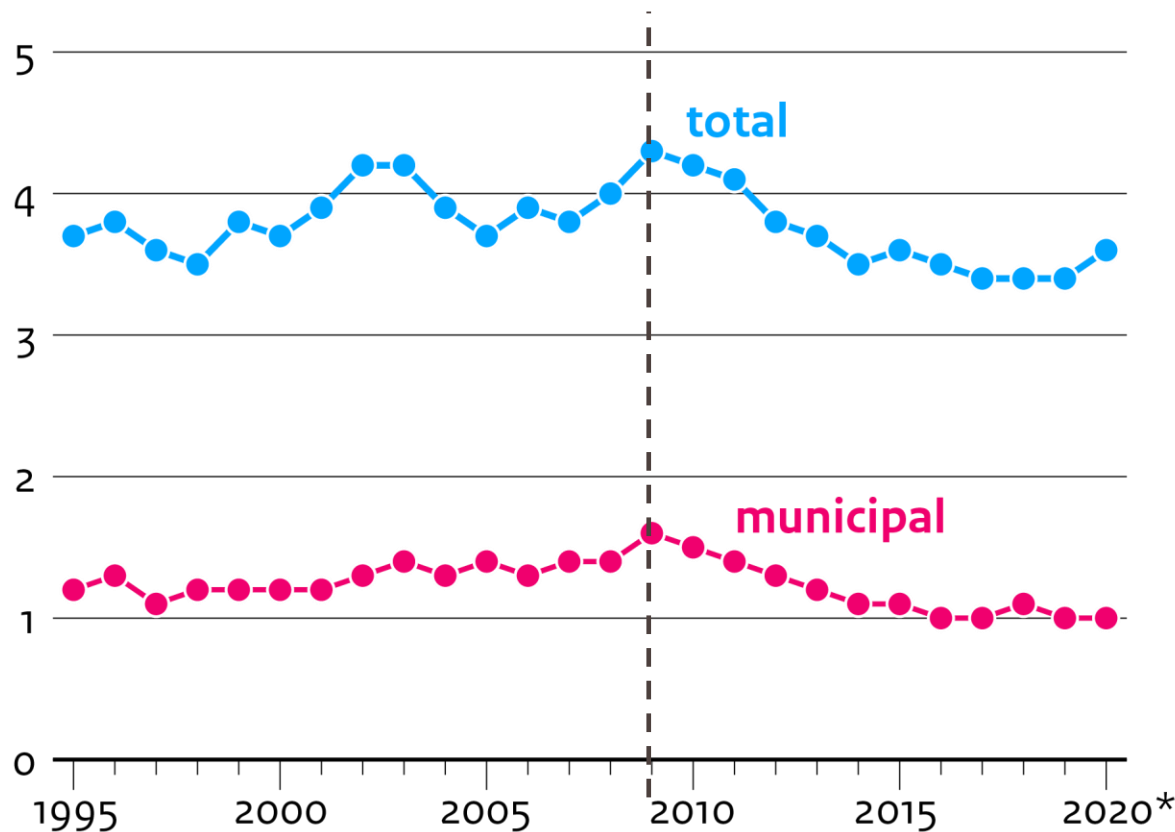
First director:  
Jan Tinbergen

## CPB: a central role since 1945

- Mission: promote evidence-based policy making
- Independent government agency
- Staff of 100 economic researchers
- Engaged in policy analysis, not in planning
- EU Independent Fiscal Institution (IFI)
- EU Productivity Board

# Government investment in the Netherlands

Government investments, in % of GDP, 1995-2020

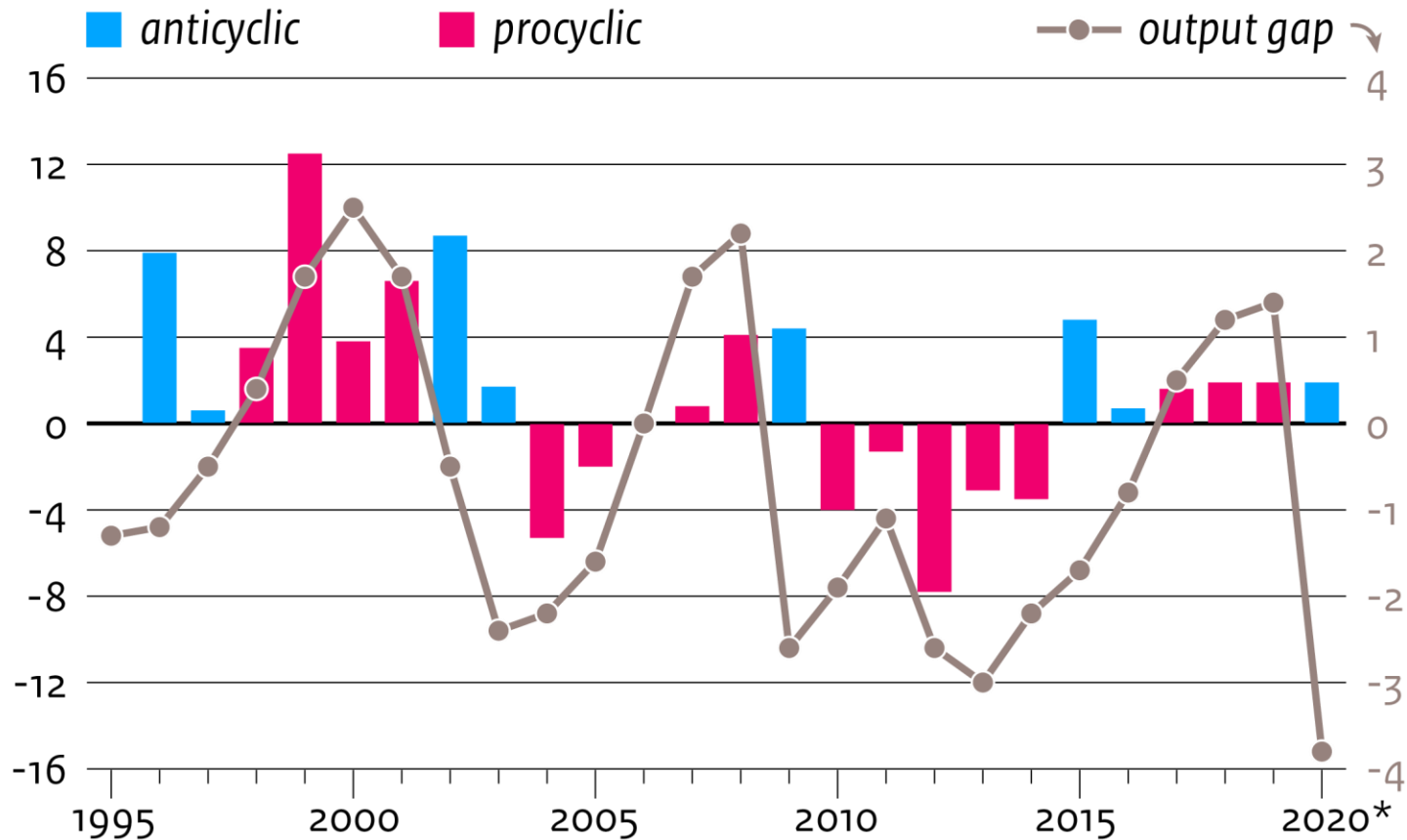


\* Provisional CBS-data

- Since 2009, decrease of government investment with 0.6 % GDP, this is due to the decrease of municipal investment
- Procyclical, very evident in period 2009-2013: strong decrease of government investment during financial crisis
- Decrease of municipal investment caused by
  - budget cuts in transfer by central government
  - 50% decline in the construction of new housing, so much less need for municipal investment in roads and sewerage

# Government investment is often procyclical ...

Change in government investment vs. output gap (right y-axis) in %

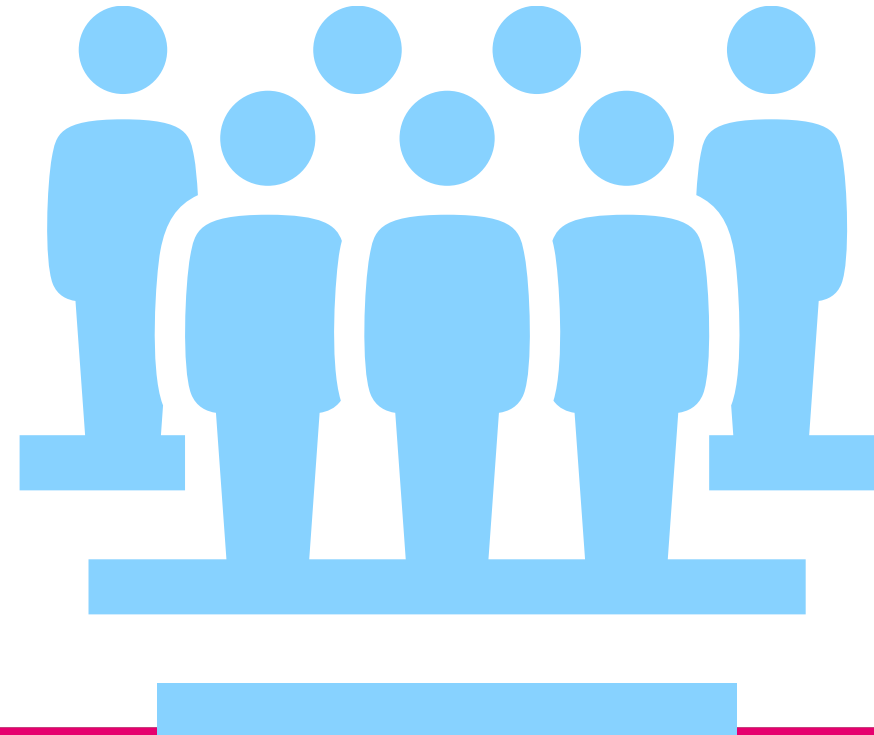


\* Provisional CBS-data

- For 25 years procyclical government investment, further research needed on causal factors

# Budgetary rules in the Netherlands

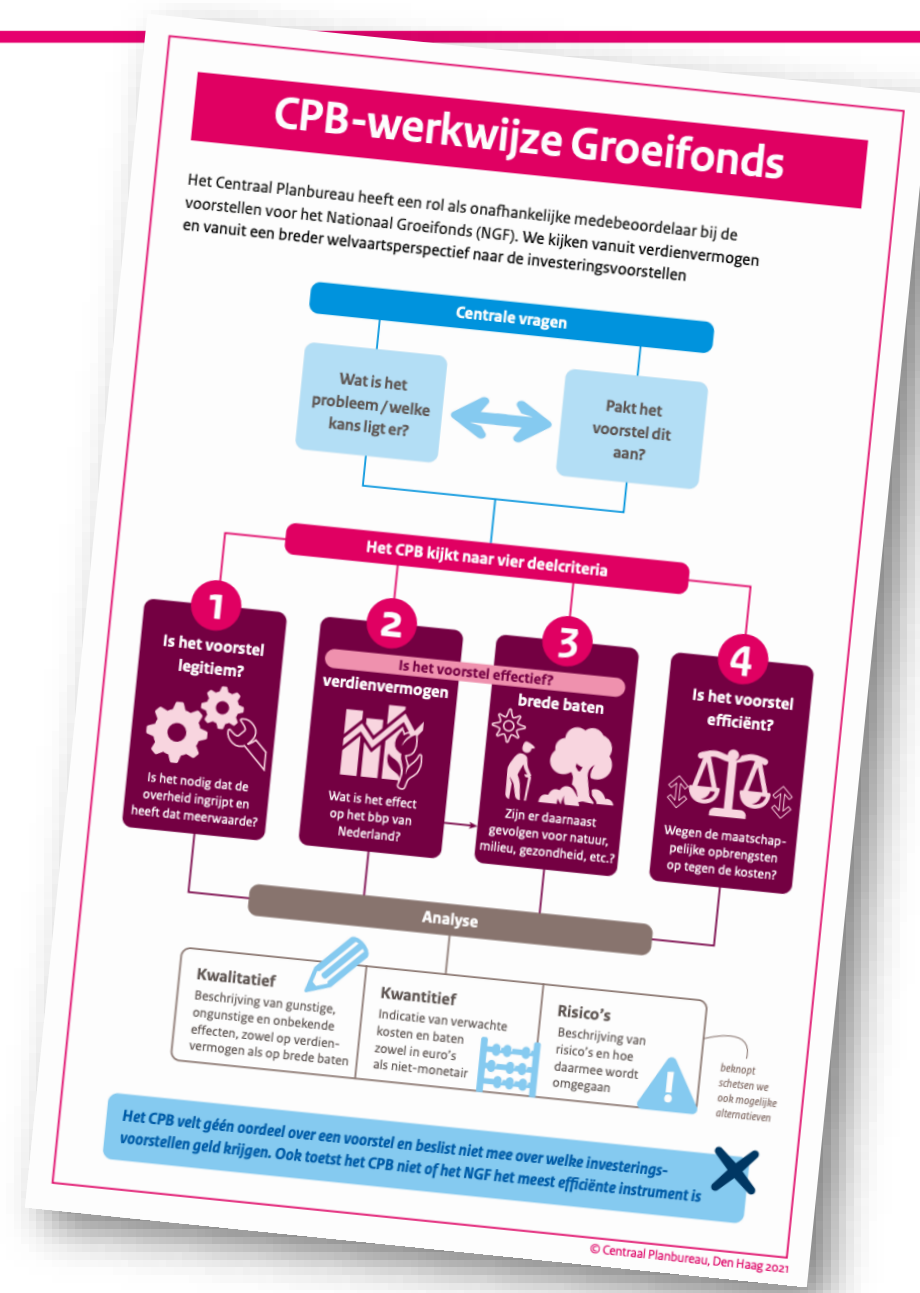
- Structured decision making: 4-year coalition agreement, yearly time slot for decisions with budgetary consequences
- Expenditure rule (including tax expenditures)
  - path based on debt target/ long term sustainability
  - yearly real ceilings for non-cyclical spending
    - For each sector and government department
    - Tax measures have separate ceilings, cyclical fluctuations are allowed to affect government balance



# Dutch Public investment funds

Which fund?	Amount (bn euro)	Explanation
Mobility Fund	14.5	Annual
Water Management Fund	1.3	Annual
Defense Material Fund	4.6	Annual
National Growth Fund for Innovation, Knowledge and Infrastructure	4	Annual for 5 years
Government Bank for Innovation and Sustainability	1.6	Starting budget
Subsidies for Sustainable Energy	3	Annual until 2030

All these expenditures have a direct impact on EMU-government debt



# Challenges for new government period (2022-25)

- Substantial uncertainty for economy and public finance: inflation, interest rate, European rules, Covid
- Major policy challenges: climate, energy, housing, environment, education



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# The Netherlands: fighting for space

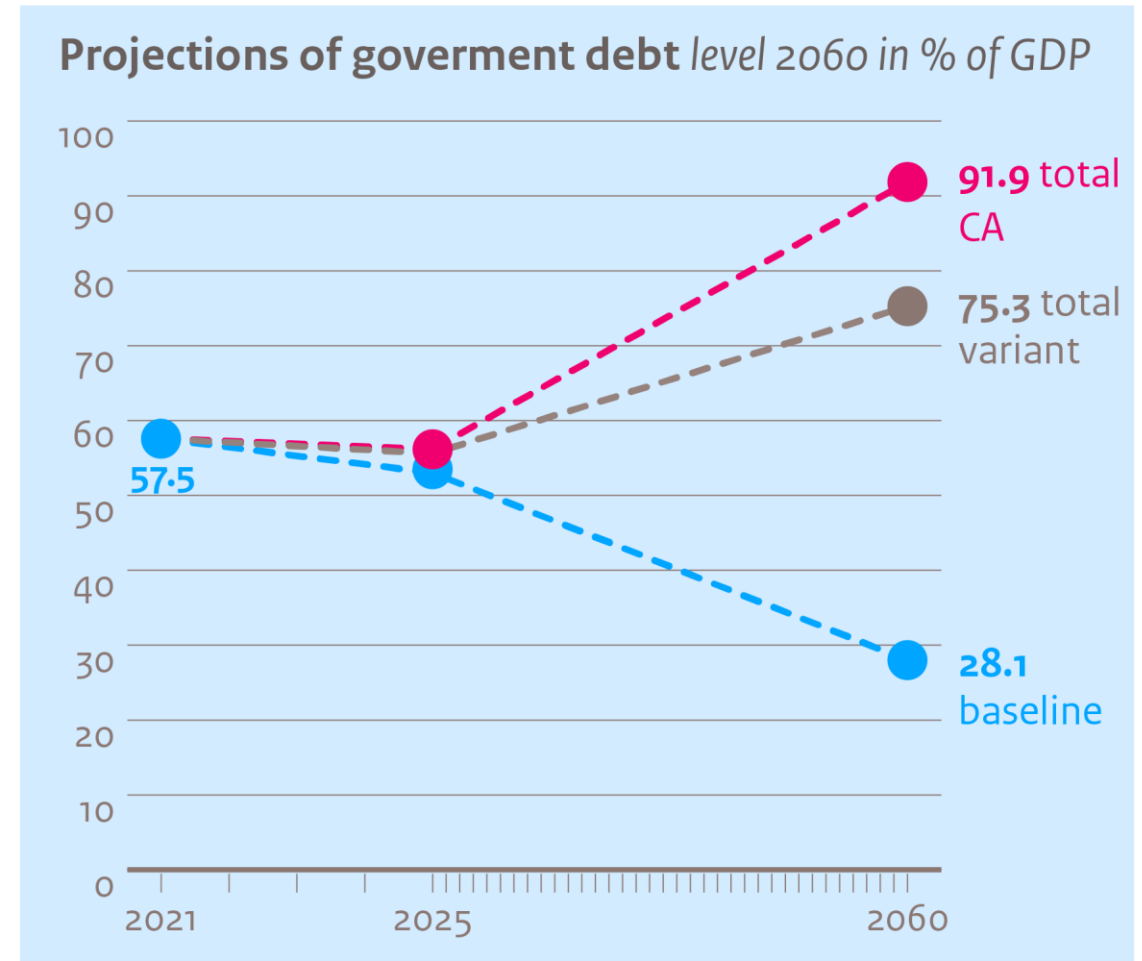
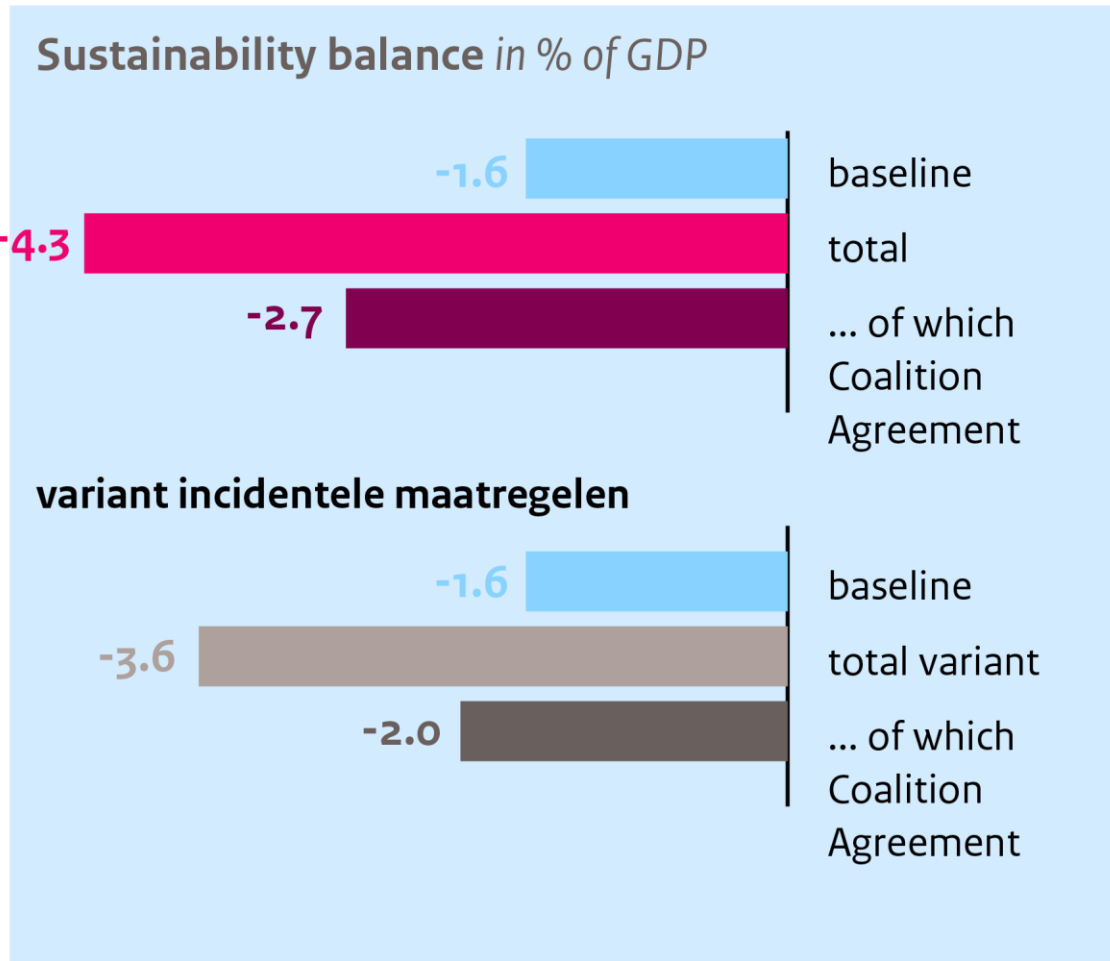
	NL	Ireland	Ratio
GNI per capita (US dollar 2020)	51	52	1.0
population (mln)	17	5	3.4
size in thousand km <sup>2</sup>	42	70	0.6
population density per km <sup>2</sup>	419	74	5.7
Agriculture			
relative size in km <sup>2</sup>	0.55	0.73	0.8
relative size: % GDP	1.6	0.9	1.8
number of chicken (mln)	100	78	1.3
number of pigs (mln)	11	2	5.5
number of cows (mln)	4	7	0.6
number of sheep (mln)		4	

- High population density, population growth and high animal farm density
- World's second largest exporter of agricultural products
- So fight for physical space and for limiting negative external effects (nitrogen, biodiversity, emissions)

# The new coalition agreement

- New ‘public investment funds’:
  - Climate: 35 bln euro
  - Nitrogen reduction and transition agriculture: 25 bln euro
  - Housing: 7.5 bln euro for related infrastructure for 900 thousand
  - Science: 5 bln euro
  - Earmarked budget, no separate funds.
- Ceiling for total of separate budget funds (Mobility Fund, Deltafund, National Growth Fund and Defence Material Fund)

# Financial burden for future generations



# Three lessons for public investment

## 1. Public investment is a means and not the end

- Public money is not free: there are trade offs involved
- Public investment is not always the best solution:
  - Alternative policy options can be more effective, efficient and fair
  - Public investment can crowd out private investment
- It is essential to define mission and focus clearly and to check their relevance regularly
- Effectiveness and efficiency should be periodically evaluated
- Focus should be on quality of spending and reaching policy objectives, not on exhausting the earmarked budget



## 2. Policy alternatives should be evaluated in a coherent way

- From a long-term welfare perspective (cost-benefit analysis)
- In view of all scarce resources: (specialized) labour, physical space, effects on climate and biodiversity
- Public investment funds should avoid competing objectives
- Focus on short term results can lead to lock-in effects and major negative external effects in the long run
- Monitoring, evaluation and timely analysis of alternatives are crucial



### 3. Fund governance and budgetary rules require careful design

- Do policy objectives justify separate funding outside normal budget?
- Who decides on allocation of spending? Checks and balances?
- Be aware of trade-offs:
  - efficiency versus political accountability
  - speed versus quality
  - predictability and stability versus flexibility
- Volatile fund inflows should be avoided (cf Natural Gas Fund, Municipality Fund)





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