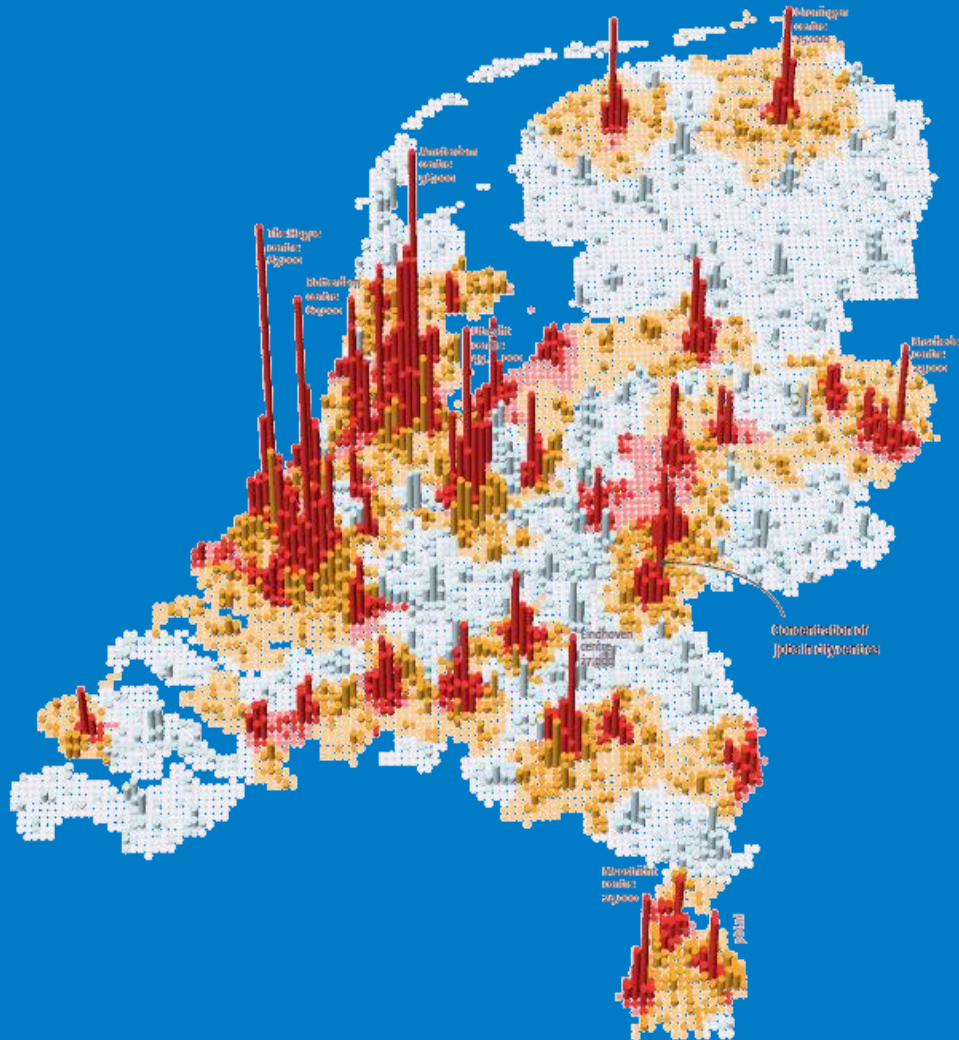




Ministry of the Interior and
Kingdom Relations



Going Beyond Fiscal Equalisation

Dutch regional inequalities

"It's the ~~economy~~ politics, stupid"

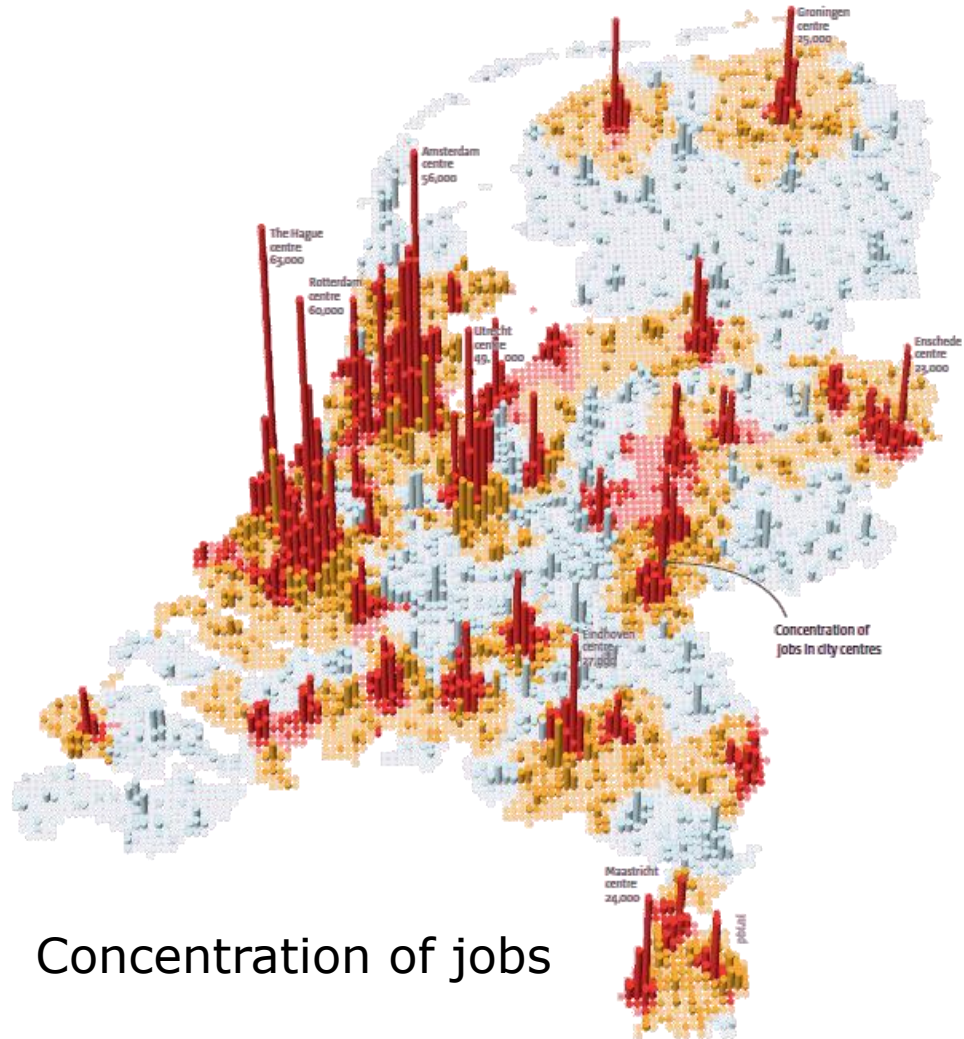
18th OECD Fiscal Network

Paris, July 21st 2022

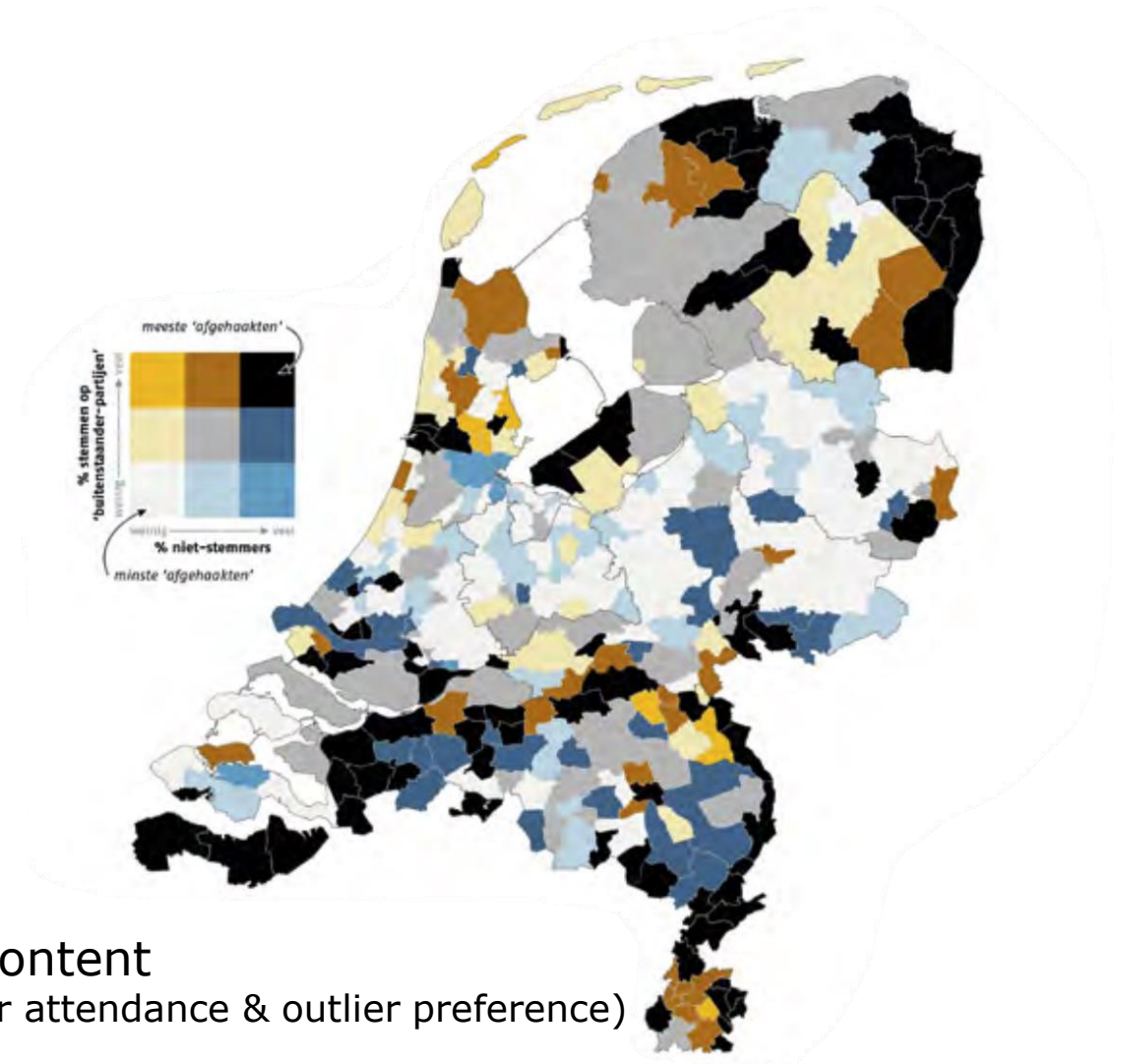
Geert de Joode



Geography of discontent



Concentration of jobs



Discontent
(voter attendance & outlier preference)



Principles of Fiscal Equalisation in NL

Expenditure

Income

(?)
=

Administrative tasks & tasks with **little or no autonomy**

Earmarked conditional grants

Low autonomy

Shared responsibilities or co-government

High autonomy

Municipality fund
(unconditional, non earmarked, equalization grant)

+
Own source revenue:
• Property tax
• Other taxes
• Non-tax

Full autonomy

User charges/ fees

Principles: first generation fiscal federalism

- > Allocation, redistribution and stabilization: responsibility of central govnmnt
- > Allocation: classical decentralisation theorem ("decentralisation, unless ...")
- > Assumption: high autonomy of jurisdictions, strict separation of responsibilities

Funding: earmarked and non-earmarked / with or without accountability

- > Conditional / earmarked grants => specific purpose, accountable to central govnmnt
- > Municipality fund + own source income => unconditional, accountable to local govnmnt

Municipality fund with equalisation ceiling, size affected by:

- > Changes in spending responsibilities => efficiency gains factored in by default
- > Ad hoc exceptions by central govnmnt => non substantiated cuts in / reallocation of budget
- > Accrual arrangement => agreement between levels of government (from the '80s!)
 - Subcentral spending should be proportional to central level spendingtrap (economize spending)
 - Varies with CG spending: not very stable
 - Has no relation to actual development in spending needs

Municipality fund distribution (per Jan 1st 2023 ☺):

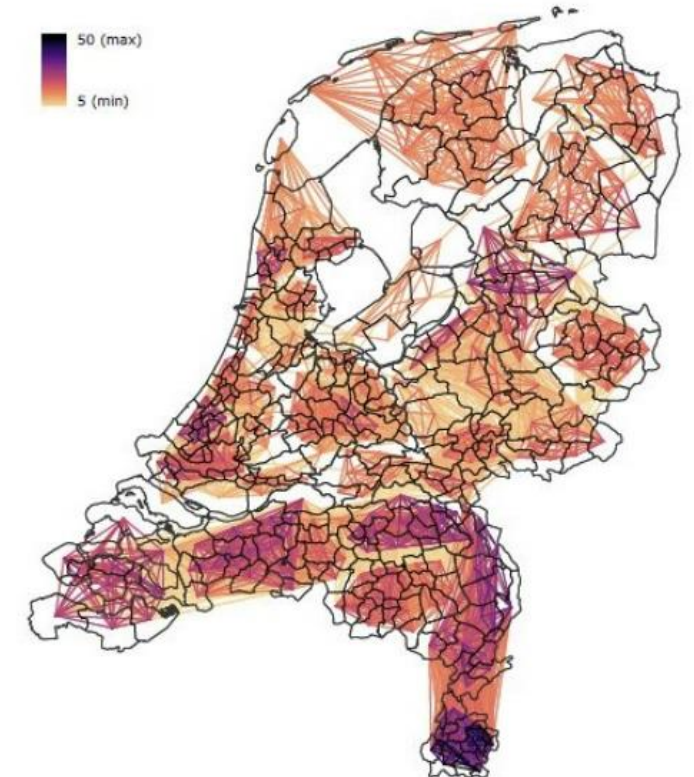
- > Need based, regression type formulas (all expenditure included, user charges and earmarked grants netted)
 - Cost factors are taken into account : objective criteria as cost factors (density, area, population, etc.)
- > All municipalities are included in FE system (only largest two have special need indicator)
- > Property tax is (partially) equalised by base (base x standard tariff), retention rate 20/30%
- > Other taxes and non tax income no equalisation (per capita amount)
 - Not possible to calculate capacity (volatile, coincidental), costly to inventorize accurately per municipality
 - very unsatisfying => equity concerns



Decrease in fiscal autonomy

- > Fiscal autonomy under increasing pressure
 - Efficiency gain factored in from start in 2015 (unfunded mandate)
 - Limit on user fees certain social services
 - fixed per capita from 2019 (was dependent on personal income)
 - Rise of expenditures social services due to increase in volume
 - Little influence on influx of patients (jurisprudence, channels)
 - NB: accrual has no relation to actual spending needs
 - Relative share of social service expenditures increased
 - Decrease in other service expenditure (e.g. maintenance)
 - Decrease in investment and regional development
 - Cofinancing issues
- > Increase in:
 - (Unintended) municipal amalgamation: 393 (2015) -> 342 (2023)
 - Municipal cooperation: average of 30 (partially overlapping) partnerships
 - 20%-40% of budget via regional (non elected) bodies of government

Number of partnerships





Regional development policy

> **Fiscal Equalisation:**

- Proven very difficult to accommodate all types of municipalities / regions, differences remain
- Centre (urban) versus periphery ("rural") interest divergence

> **Regional policy could complement generic grant, but:**

- Historical focus on mainport development / innovation hubs, but:
 - > 50% of GDP comes from outside 5 biggest regions
 - Many regions are catching up, some signs of convergence
 - Trickle up, not trickle down

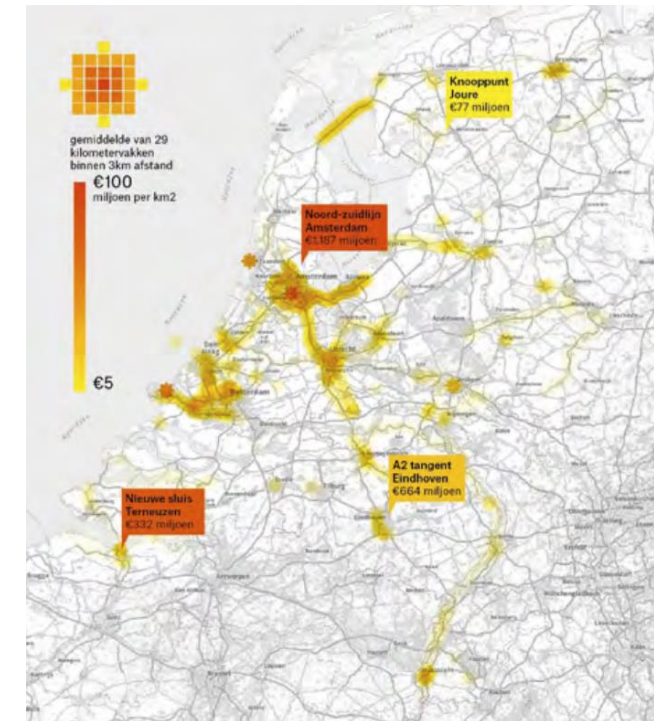
> **Investment by CG highly sectoral (different funds)**

- current issue of policy alignment in spatial planning (!not regional development)
 - Infrastructure (€ 6 bln./year), Housing (€ 100 mln / year), Climate change (€ 3,5 bln / year), Agriculture

> **Second best: regional dealmaking ("Regio deals")**

- Modest budget of € 900 mln for 4 years, focus on regional comprehensive wellbeing (place-based)
- Non structural earmarked grant with cofinancing demand (50%, differentiated by fiscal capacity)
- Capital investment & regional cooperation incentive

Heatmap of CG infrastructure investment 2010-2019





Policy Agenda

- > Invest in intergovernmental relations
 - Repair unfunded mandates
 - Vitalize rules for cooperation between levels of government
- > Simplify regional cooperation / strengthen autonomy
 - Clarify assignment of responsibilities between levels of government
 - Asymmetric decentralisation, regional congruency
- > Enforce balance between spending and revenue responsibilities
 - Stabilize the generic funding mechanism of subcentral government:
 - accrual arrangement, level of own source revenue, increase fiscal autonomy
 - Balanced fiscal arrangements new / changing responsibilities (including PPP)
 - Risk sharing arrangements, solve information asymmetries, ...
- > Strengthen local government bodies