

Why Not Fully Spend a Conditional Block Grant?

Riemer P. Faber and Pierre Koning

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Abstract

This paper studies a conditional block grant that Dutch municipalities receive for welfare-to-work programs. Many municipalities do not fully use this grant, although programs are beneficial for them. We argue that municipalities incur expenses to use the grant. If these costs are substantial, then it is optimal not to fully use the grant. Based on municipality-specific data on grants and actual expenditures, we estimate that municipalities have to add about 90 cents from their own resources to spend 1 euro of the grant. As a result, the conditional block grant is de facto a closed-ended matching grant.

Keywords: Intergovernmental grants, Conditional block grants, Welfare-to-work programs.

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Riemer P. Faber (corresponding author): Charles River Associates, European Competition Practice. 99 Bishopsgate, London EC2M 3XD, United Kingdom. Phone: +44-20-7959-1411, E-mail: rfaber@crai.com. Pierre Koning: Leiden University, VU University Amsterdam, Tinbergen Institute, and IZA. E-mail: p.w.c.koning@law.leidenuniv.nl. The majority of the work on this paper was completed while the authors were at the CPB Netherlands Bureau for Economic Policy Analysis. Views expressed are those of the authors and do not necessarily reflect the official positions of Charles River Associates or the CPB Netherlands Bureau for Economic Policy Analysis.