



Polish  
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# Can the state be a good investor?

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# The short answer is: YES. But...

Policymakers and economists increasingly agree that **expansionary fiscal policy should be the main economic recovery tool after the crisis.**

But there are two basic questions:

- I. Can the state invest the money well (is the investment productive)?
- II. What should government investment focus on?

We answer: **YES, states investment can be productive.** But the current definition of public investment **is wrong.** What may provide wrong incentives for public policy.

# Investment in human capital should be treated as a part of public investment

## TRADITIONAL DEFINITION

Gross fixed  
capital formation  
(investment in  
fixed assets)

vs.

## OUR PROPOSAL

Investment in  
fixed assets  
+  
Investment in  
human capital

# Public spending on education usually exhibit high rates of return

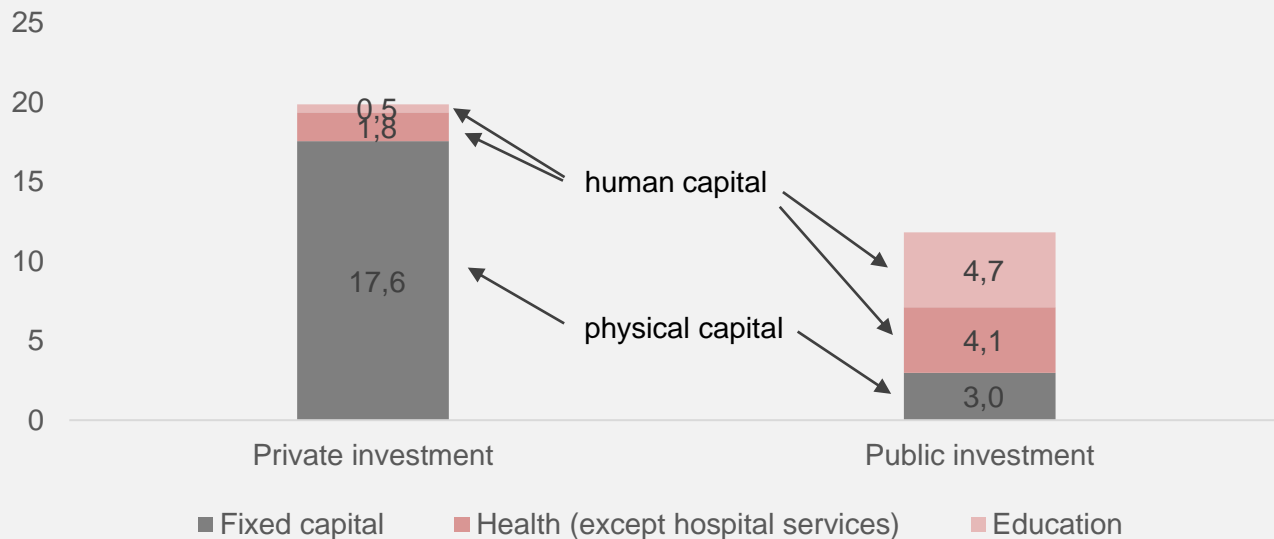
Heckman et al., 2010	Overall social rate of return on preschool programmes is in the range of <b>7-10 per cent</b> .
García et al., 2020	The internal rate of return from public investments in early childhood programmes for disadvantaged children is <b>13.7 per cent</b> annually.
Reynolds et al., 2011	The preschool program for low-income families provided a total return to society of <b>18 per cent</b> annually.
Jackson, Johnson, Persico, 2016	A 10 per cent increase in per pupil spending each year for all 12 years of public school leads to about <b>7 per cent</b> higher wages.
Sianesi, van Reenen, 2003	A one-year increase in average education raises the level of output per capita by <b>3-6 per cent</b> and leads to an over one percentage point faster growth rate.
Trostel, 2010	The average real fiscal internal rate of return on government investment in college students is conservatively estimated to be <b>10.3 per cent</b> .

# Improving citizens' health also yields high benefits to the economy

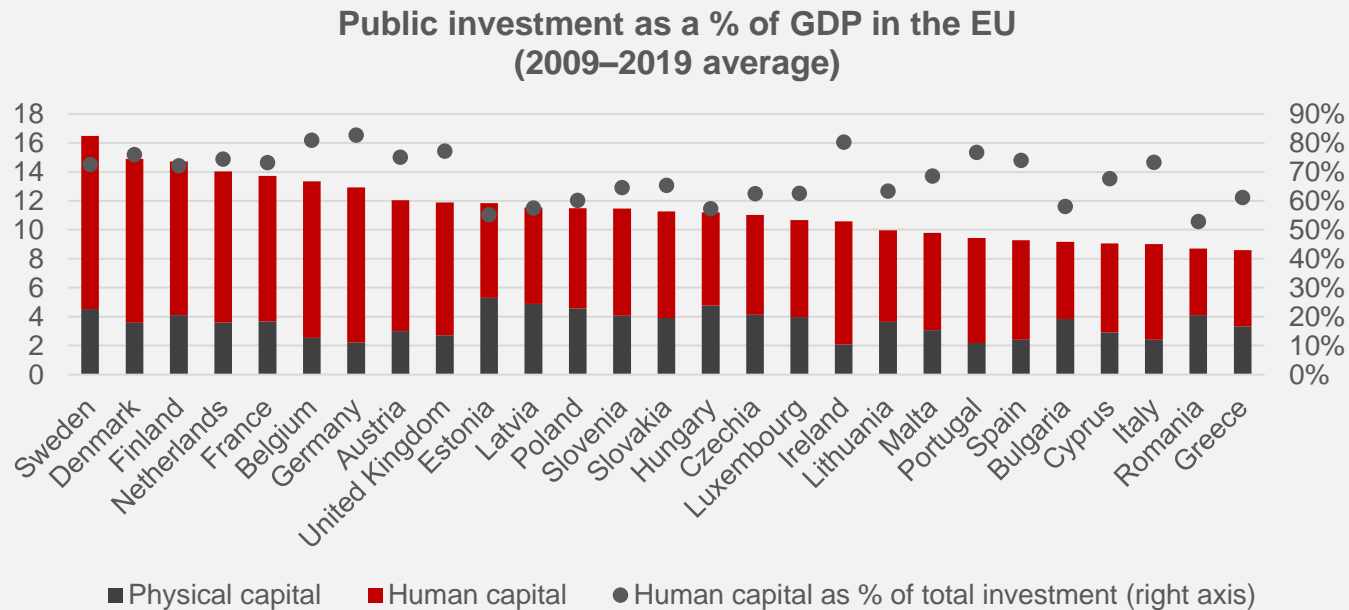
Masters et al., 2017	For every 1 pound invested in public health, <b>14 pounds will subsequently be returned to the economy.</b>
Chisholm et al., 2016	The economic <b>benefit-to-cost ratio</b> of investment in improving mental health in the population in selected countries is <b>between 2.3 and 3.0.</b>
Hendren, Sprung-Keyser, 2020	1 dollar spent on extending health insurance for <b>children increases public revenue by a total of 1.78 dollars.</b>

# Investment in human capital mostly come from public sector

Private vs. public investment structure in the EU  
(% GDP, 2009–2019 average)



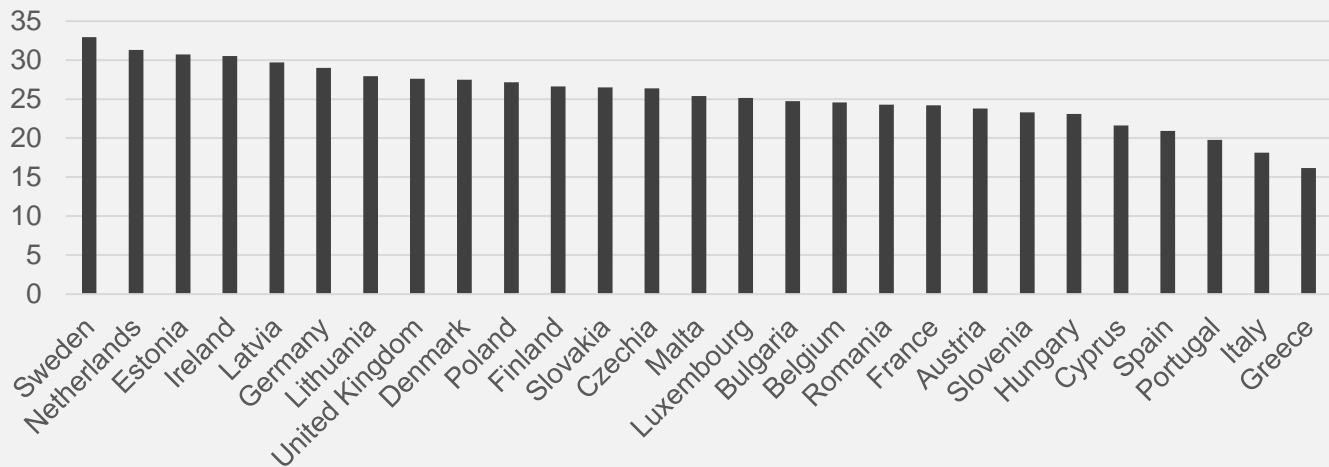
# 3/4 of public investment in the EU goes to human capital development





# Approx. 25% of total public expenditure is investment spending

Public investment as a % of total public expenditure in the EU  
(2009–2019 average)



# Summary

- Development is not just about physical infrastructure anymore, **the quality of human capital is as important as rail-ways and roads.**
- We call for **extending the current formal definition of investment** by including investment in human capital.
- Thinking about investment in its **narrow definition** (as linked to physical capital) and not in its wider definition (as producing future economic benefits) **may distort our image of the public sector** and can create wrong incentives for public policy: when investment expenditure is used to evaluate government activities.

# Thank you

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