

CPB Netherlands Bureau for Economic Policy Analysis
Headlines of CPB's Working programme 2005

Core business of CPB Netherlands Bureau for Economic Policy Analysis is to make independent economic analyses that are both scientifically sound and up-to-date, and relevant for policymaking in the Netherlands. We provide these analyses both spontaneously and on request of our primary customers, i.e. government, parliament, political parties (parties in office as well as opposition parties), and employers' and employees' organisations. The dividing line between research on our own initiative and research on request is not very clear, as all analyses aim to meet the needs of our clients.

Priorities for 2005

Following the topical policy discussions in the Netherlands and abroad, CPB has directed a relatively large part of its research capacity for 2005 to six priority themes. The themes are not presented in an order of importance.

a. Future of the welfare state (including ageing and pensions)

Long term developments, first of all ageing, call for a reconsideration of the welfare state arrangements with a sharp eye on the sustainability of public finances. CPB aims to contribute to this discussion, by presenting analyses of diverse options. Research projects in 2005 include a scenario study on the future of the Dutch welfare state and an update of the study *Ageing in the Netherlands* (2000).

b. Productivity

In essence, enduring economic growth can only be obtained by a steady rise in labour productivity. In our ageing society, productivity growth, especially compared to other countries, is in political spotlights. What enhances productivity growth? How can policy measures stimulate further growth? CPB has the (perhaps very ambitious) goal to be able to show programme effects of policy intentions as presented in the election platforms. In anticipation of the 2007 elections, we are investigating how to estimate macro effects of policy proposals like extra investments in education or health care, in terms of a better quality of education or health care, shorter waiting lists of reduced of drop-outs from schools.

c. Health care

For years, health care expenditure has risen, and in view of the ageing population it will probably keep on rising. Partly due to this the Dutch health care system is under reconstruction. Competition and regulation can provide incentives for cost control. For 2005, CPB has planned some analyses that hopefully will prove useful in discussions on e.g. growing health care expenditure and the transition to the new health care system.

d. Taxes and subsidies on housing

More and more, the fiscal treatment of owner-occupied houses is a hot issue in Dutch politics. However, the discussion does not end there. Political parties inspect policies on owner occupied housing also in relation to the rented part of the housing market. To be able to analyse policy proposals (which can probably be expected in the run-up to the 2007 general elections), this year CPB has to invest in constructing an empirical framework. The consequences for the housing market will constitute an important point of interest.

e. Welfare and Physical surroundings

The broad project Welfare and Physical surroundings (Dutch abbreviation: WLO) forms a dedicated sequel to CPB's international long-term scenario study *Four Futures of Europe* (2003) and to its 'translation' for the Dutch economy, *Four Futures on the Netherlands* (2004). The first phase of the WLO project, containing among other things physical scenarios and an inventory of physical problems in the next decades, will be published mid 2005. Immediately after, the second phase will start: an analysis of the policy options to solve the indicated bottlenecks.

f. Europe

The influence of the European Union on policies in its member states is growing. Therefore, Europe is getting more and more important in CPB's research programme. Our analyses can provide policy makers with arguments that can be used in discussions in Brussels. Topical subjects are the internal market for services, the European emissions trade, and energy taxes. The larger emphasis on Europe can also be seen in CPB's activities on forecasting and analysing the international short-term economic development.

Research and forecasting agenda

CPB does not limit its research to these priorities. Our Working Programme 2005 contains a wide range of research projects, as well as our regular analyses for the short-term projections. As usual, CPB will publish short term forecasts and analyses quarterly. The most important short term forecast publications are the Central Economic Plan (end of March) and the Macro Economic Outlook (this year: 19 September).

Organisationally, CPB is divided in six sectors which each cover a broad research area:

1. Labour market and the Welfare state
2. Short-term analysis and Fiscal affairs
3. Growth, Structure and Knowledge economics
4. Competition and Regulation
5. Physical aspects
6. International economics.

Below we provide information on some research projects per sector that can be of interest for other countries as well. Some of these projects we do together with other institutes and universities, both in the Netherlands and abroad. At our website www.cpb.nl, we provide a more comprehensive and elaborate survey of projects.

1. Labour market and the Welfare state

- **Future of the Welfare State (including ageing and pensions):** see priority a. Two large research projects in 2005 relate to this priority (see below).
- **The future of the Dutch welfare state:** trends like ageing exert increasing pressure on the welfare states in Europe. Reform proposals under consideration include a system of minimum benefits levels, individual saving accounts, experience rating in social insurance, and a basic income. The project will also contain an international comparison of systems.

- **Update of the study *Ageing in the Netherlands* (2000):** Next to update, we will also extend the ageing research, by exploring more in detail the issue of optimal debt policies.
- **Labour market position of immigrants:** Do immigrants in the Netherlands stay behind on the labour market more than in other countries, and if so, how can this be explained? We make a comparison of the employment rates of immigrants with a Turkish background between the Netherlands and Germany, using immigrant survey data from both countries.
- **Unemployment and disability insurance as substitute pathways:** This project analyses the consequences of reforms in disability insurance (DI) for the use of unemployment insurance (UI) schemes. As private DI insurers will have a stronger incentive to reduce DI costs than the public social security administration has, there is a risk that the UI scheme will be used as a substitute pathway. In an empirical study, we will investigate to which extent this has been the case in the recent past.

2. *Short-term analysis and Fiscal affairs*

- **Health care:** see priority c.
- **Efficiency in long term care:** The Dutch government is concerned about the increases in spending on long-term care and other exceptional medical expenses, as covered by the public AWBZ scheme, over the past few years. Which improvements are possible within the current system? And how can efficiency gains be obtained by system changes?
- **Private consumption:** In recent years, volume changes in private consumption have been difficult to forecast, mainly because of unsteady wealth effects and consumer confidence effects. We will try to map out these effects.
- **Savings and labour participation over the life cycle:** The birth of children usually has a large impact on savings and consumption, as well as on labour participation. How can we incorporate these effects in our economic models?
- **Effects of early retirement schemes on labour participation:** Early retirement schemes have a large influence on the labour participation of elderly workers (55 to 64 years). We try to analyse to what extent wealth positions and the extra income that can be obtained by working some more years effect the decision of workers to stop working.

3. *Growth, Structure and Knowledge economics*

- **Productivity:** see priority b.
- **Project EU-KLEMS:** CPB participates in an international research consortium that analyses productivity in Europe. The strategic objective is to create an internationally consistent database with measures of economic performance to monitor the EU policy goals as set out at the recent Lisbon and Gotheburg summits.
- **Competition, Innovation and Productivity:** a project focusing on the theoretical and empirical implications of the relationship between competition and innovation for the Netherlands, using firm-level data for a large number of Dutch industries. To what extent have changes in competition led to higher innovation intensity and productivity growth? What can policy makers learn from it?

- **Project Micro-macro:** the aim of this project is to apply insights from studies at the micro level about education, innovation, R&D and ICT to a macro context. Eventually, we want to implement these insights into the macro models at CPB and improve the micro-foundation for the growth of productivity in these models.
- **Students at risk:** Reducing the educational achievement gap of students from disadvantaged backgrounds is a spearhead of educational policy. Currently, little is known about the effectiveness of different policies. The absence of control groups makes it difficult to determine the causal effect of policy interventions. However, in some cases special features of policy measures create random control groups: natural experiments. The project focuses on three natural experiments.

4. *Competition and Regulation*

- **Health care:** see priority c.
- **Transition problems in health care:** The Cabinet's plans for reforming the health care system contain a rather clear policy for the ultimate model, based on managed competition. There will be open enrolment for a basic package and mandatory participation in a risk-equalisation scheme. However, there are large uncertainties regarding transition issues. This project brings together theoretical and empirical insights on transition.
- **Housing corporations:** what will be the effects of policy proposals regarding liberalisation of the (until now regulated) housing market in which housing corporations operate? In this project, we will analyse the effects on segregation, selection, competition and regulation.
- **Competition in the life insurance industry:** How strong is competition in the market for life insurance and related products? How much competition is optimal? What are the relevant trade-offs? Which policy options are available to stimulate competition?
- **Unbundling and privatisation of energy distribution networks:** A policy debate is going on about the unbundling and privatisation in the energy sector. This study aims to give a systematic analysis of the costs and benefits of several policy options.

5. *Physical aspects*

- **Taxes and Subsidies on housing:** see priority d.
- **Welfare and Physical surroundings (WLO):** for this long-term scenario study, see priority e.
- **Future of European Agriculture (FEA):** The FEA model is an applied general equilibrium model, meant to analyse the development of European agriculture. The model will be expanded with the ten new EU member states. Next, a base run will be developed, with which we will study the question where the EU agriculture will be in 10-15 years time.
- **Spatial general equilibrium model:** CPB will develop a small model which can be used as an instrument for the assessment of complex economic effects and the calculation of indirect (mostly regional reallocation) effects.
- **Offshore wind energy:** a cost-benefit analysis on the construction of a 6000 MW offshore wind energy park in the North Sea in 2020.

6. *International economics*

- **Europe:** 'Europe' (priority f) is a general priority in CPB's research agenda.
- **Productivity and subsidiarity in Europe:** European countries experience a period of moderate growth, while growth in the United States seems to accelerate. What are the reasons for stalling European growth and how are the impediments to growth to be removed? And who can contribute most to a rise of economic growth: the individual EU member states of the European Union as a whole?
- **European Outlook: Leisure - Free choice?** An important part of the income differential between Europeans and Americans is due to differences in hours worked. This may be the outcome of a difference in preferences, but may also be the result of differences in institutional design of the labour market - a high tax wedge deterring people to work extra hours.
- **Welfare impacts of tax harmonisation:** Using a dedicated applied general equilibrium model we will analyse the impact on economic welfare of European policy coordination. This research project is part of the EU-funded project TAXBEN, in which several European institutes cooperate. TAXBEN assesses the welfare impacts of various schemes of taxes and benefits within the EU.
- **European emissions trading:** In 2005, a European scheme of emissions trading will start for installations with a large energy use. How this scheme is to be extended at the start of the first budget period of Kyoto (2008) is an important policy question, that we will address in a study on European emissions trade.