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# CPB Newsletter

2006 June

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CPB Netherlands Bureau for Economic Policy Analysis

## Emergency: liberalise health-care prices to improve competition



Coen Teulings

*The introduction of the new Dutch health-care system is a great success. After fierce competition among insurers for new clients, many consumers have switched from one insurance company to another. Due to this competition, the insurance premium ended up some 70 euro lower than expected beforehand. The government should be content about this outcome.*

Despite this success, the job is not yet done. Why have we introduced a new system? To reduce cost by competition between care providers. Competition on the insurance market helps, but is not sufficient. As long as consumers are well insured, they have no interest in lower costs. The insurance company pays the bill. Competition between health-care providers will only start if insurance companies can negotiate better care for a lower price. The more successful companies are in these negotiations, the lower their costs, and hence the lower the premium they can charge. However, up till now, this has not worked very well. What is the problem?

First: consumer behaviour. All negotiation effort by insurance companies is wasted if patients do not follow the companies' advice, and seek treatment in other, more expensive hospitals than those with whom the insurance companies have struck a deal. There are

two types of insurance policies. In a managed care policy, insurance companies pay the bill only if consumers pick one of the health-care providers with whom they have contracted. In contrast, in a free choice policy, consumers have the right to choose a provider themselves. As consumers do not like to be told what care provider to pick, managed care is seen as an inferior product, even though it is offered at a lower price. Insurance companies can only solve this problem with the help of well-reputed, independent outside parties who can rate the quality of the health-care providers included in their policy. Organisations of patients can play an important role in this respect.

The second problem is the size of the liberalised segment of the market for health care. In the recent past, all health-care prices were set administratively, by a central authority for prices in the care and cure sector. Obviously, this type of severe intervention does not square well with competition. Recently, the prices for some cure activities have been liberalised, but these cover only 8% of the total budget. If tough negotiations result in a price reduction in this segment of 10%, this yields a cost advantage of only 0.8%: not a great competitive advantage. If that is all you can gain, it does not make much sense to hire expensive experts to do these negotiations. Only by a substantial extension of the share of health-care activities with liberalised prices, competition on the health-care market will get a fair chance. □

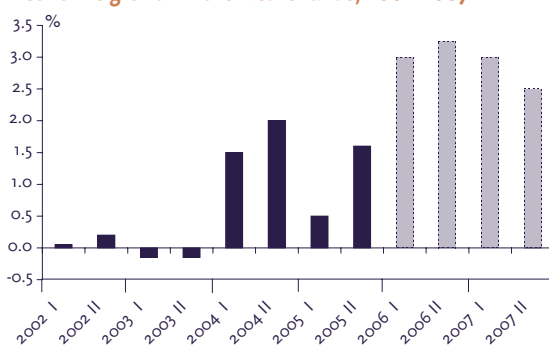
Coen Teulings  
director

## CPB's short term forecasts June 2006

- Dutch GDP is expected to accelerate to 3% in 2006 and will slightly fall back to 2¾% next year.
- Exports will benefit from a favourable international economic climate and a small improvement of competitiveness in 2007.
- For the first time since 2001, all domestic expenditures (private consumption, investment and government expenditures) will contribute to economic growth.
- Employment growth is expected to accelerate this year and next year. In both years the unemployment rate will fall sharply, to 4½% on average in 2007.
- Inflation and wage growth continue to be moderate in 2006 and 2007.

See the back page for the main economic indicators for the Dutch economy, or [www.cpb.nl](http://www.cpb.nl) for more information.

Economic growth in the Netherlands, 2002-2007<sup>a)</sup>



<sup>a)</sup> GDP volume growth rate compared to corresponding period in the previous year.

## Recent Publications

APRIL – JUNE 2006

*The following list gives an overview of recent CPB publications that have appeared in English between April and June 2006.*

*All publications can be downloaded from [www.cpb.nl](http://www.cpb.nl). A press release on the publication is often available at the website.*

### CPB Documents

#### **113. Regional disparities in a small country? An analysis of regional unemployment and participation differentials in the Netherlands, 1975-2003**

Wouter Vermeulen, April 2006  
[wouter.vermeulen@cpb.nl](mailto:wouter.vermeulen@cpb.nl)

The existence of Dutch regional support programmes is based on the idea that labour markets in the Netherlands do not clear at the national, but at some local level. From a general equilibrium perspective, it is far from easy to identify the regional dimension of labour markets. This study argues that the size and persistence of regional unemployment and participation differentials are an appropriate indicator. We analyse regional unemployment and participation in the Netherlands from 1975 until 2003. Empirically, differences in inactivity do not seem to be a reliable indicator of the regional component of labour markets. Both from an international perspective, and in comparison to variation of labour market conditions over the business cycle, the regional dimension of labour markets appears to be small. However, it is relatively large for women, youths and the lower educated, which are the least mobile groups. It would be efficient to aim regional labour market programmes at these groups, if such programmes are desirable at all.

#### **119. Evaluating the push for tougher, more targeted policing in the Netherlands - evidence from a citizen survey**

Ben Vollaard, June 2006  
[ben.vollaard@cpb.nl](mailto:ben.vollaard@cpb.nl)

This study estimates the effects of outside pressure on the police to move towards disorder policing and hot spots policing during the period 2003-2005. We use a citizen survey providing unique data on hard-to-observe dimensions of police work for every single municipality in the Netherlands. We relate variation in local policing strategies in response to the government directives to individual data on victimisation of crime and experience of disorder and fear of crime. The sample includes some 365,000 residents randomly selected from the Dutch population. We control for individual background characteristics and fixed municipality characteristics. We find evidence that disorder policing is effective in reducing disorder, fear of crime, restriction of movement in public spaces, violent crime and small property crime. Hot spots policing is effective in combating fear of crime, property crime and some types of disorder.

### CPB Discussion Papers

#### **64. Assessing the returns to studying abroad**

Hessel Oosterbeek and Dinand Webbink, May 2006  
[dinand.webbink@cpb.nl](mailto:dinand.webbink@cpb.nl)

The market for higher education increasingly becomes an international market. Nowadays, the number of students studying abroad is substantial and increasing. Many governments stimulate students to study abroad by offering a wide range of grants. However, little is known on the returns to this. The researchers explore the feasibility of a new approach for finding credible evidence on the returns to studying abroad. Using a sample of graduates who applied for a specific grant for studying abroad, they compare the outcomes of graduates who received the grant with the outcomes of graduates who did not receive the grant. The ranking of the applicants by the selection committee has been used to create credible control groups. The researchers find that a grant increases the probability of studying abroad by 23 to 42%-points and the duration of the study by 7 to 9 months. An extension of the study by 7 to 9 months in another country increases the probability of living abroad after completion of the study by 30 to 39%-points. Also, studying abroad is associated with higher wages. However, it is not clear whether these higher wages are caused by studying abroad.

#### **65. Housing supply and the interaction of regional population and employment**

Wouter Vermeulen and Jos van Ommeren, May 2006  
[wouter.vermeulen@cpb.nl](mailto:wouter.vermeulen@cpb.nl)

Housing markets may significantly affect the relationship between regional population and employment, if housing supply

is not fully accommodative to demand. The researchers provide an empirical analysis on the relationships between housing supply, regional population and employment, using a three-equation dynamic model. Annual regional panel data are used for the Netherlands, where a strong tradition of spatial planning exists. The researchers find that net internal migration is strongly determined by housing supply, whereas employment growth has no statistically significant impact. Growth of the housing stock is only moderately affected by population and employment, possibly as a result of restrictive spatial policies. Employment adjusts substantially towards a long-run relationship with the regional population. The analysis further indicates that labour supply drives this long-run adjustment more than local consumer demand. In a nutshell: people follow houses rather than jobs, and jobs follow people in the long run.

## Colofon

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## Who cares?

*The combination of work and care receives increasing attention in the policy arena. The discussion in the Netherlands has been lagging, but the steep rise in female participation has brought the issue to the fore. In the discussion, many point to the Scandinavian countries where high subsidy levels for child care and generous paid leave schemes go hand in hand with high female participation rates. However, correlation is not causation. This summer, CPB will publish two studies that consider the impact of (intensifying) child care subsidies and paid leave: 'Child Care Subsidies Revisited' and 'Paid Parental Leave: A CGE Analysis for the Netherlands'.*

We find that child care subsidies stimulate labour supply, in particular of females. Indeed, child care is to a large extent complementary to participation, and hence acts as a wage increase. Furthermore, child care subsidies are relatively effective in stimulating labour supply because they are a subsidy per hour worked, as opposed to e.g. a flat participation subsidy. This is particularly relevant for the Netherlands where female participation in persons is in line with the EU, but female participation in hours is relatively low. Child care subsidies are also relatively effective because they target on the participation of women. Women are relatively more responsive to changes in the rewards from working.

However, there is a catch. Empirical studies indicate that a substantial part of the child care subsidies results in substitution of informal paid and unpaid care by formal care. At some point the hourly price for parents becomes so low that the participation effect becomes minor and the subsidies result predominantly in substitution of informal care. This could perhaps be desirable for other reasons, but whether 'free' child care is a cost-effective way to stimulate labour supply is questionable. We also find that even if child care becomes free for parents, participation rates of women in the Netherlands in hours will still be far from those in Scandinavia. Hence, other factors seem to play a role and there is also a case for reverse causation. Various studies suggest that many Dutch women prefer household production to formal participation. But then again, these preferences may be endogenous. A topic for future research.

We find that paid parental leave reduces labour supply in hours, both for the target group and overall. Indeed, individuals can only benefit from paid leave by taking leave. Paid parental leave does stimulate individuals from the target group to work more hours including the leave hours, but the financing of the leave subsidies discourages the labour supply of other groups. Furthermore, the data suggest that women are not more likely than men to take paid leave when the compensation during leave rises. Hence, paid leave is less targeted on (the more responsive) women, which reduces the potential positive effect on labour supply. Our study suggests that differences in paid leave arrangements cannot explain the difference in participation in hours between Dutch women and their Scandinavian counterparts.

The studies above focus on the impact on labour supply. However, there is yet another dimension to these policies: the development of the child. Many studies suggest that the early years have far-reaching consequences for human capital development later on in life. The relative importance of formal and informal care may shift with age. Most parents take parental leave when the child is still very young, and indeed studies suggest that during the initial phase parental care is relatively important. Child care is used later on, when perhaps the development of social skills becomes more important. Policy intervention still has to be motivated by cost-benefit considerations though, also when it comes to child development. Indeed, what is the optimal mix of formal and informal care for a particular child? Another topic for future research. ▢

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## Main Economic Indicators for the Netherlands, 2004-2007

	2004	2005 <sup>a)</sup>	2006 <sup>a)</sup>	2007
	annual growth rates			
<b>International items</b>				
Relevant world trade volume	7.5	5.7	7¼	7
Import price goods	0.6	3.4	3¾	1
Export price competitors	0.3	1.4	1	¾
Crude oil price (Brent, level in dollars per barrel)	38.2	54.4	68	70
Exchange rate (dollar per euro)	1.24	1.24	1.24	1.25
Unit labour costs competitors in manufacturing	-4.4	-0.6	-1½	-1
<b>Demand and output (volume)</b>				
Gross domestic product (GDP, economic growth)	1.7	1.1	3	2¾
Private consumption	0.0	0.4	-1¾ (1½)	1
Gross fixed investment, private non-residential	3.3	0.5	8½	4
Private residential investment	6.4	5.7	5½	3½
Exports of goods (non-energy)	9.4	6.6	7½	8¼
of which domestically produced	1.2	3.1	4¼	4
re-exports	20.1	10.7	11¼	12½
Imports of goods	9.0	5.1	7½	7
Production market sector <sup>b)</sup>	1.9	1.7	4	3½
<b>Prices and wages</b>				
Consumer price index (CPI, inflation)	1.2	1.7	1¼	1½
Price domestic expenditure	1.4	1.5	1½	1½
Export price goods (excluding energy)	-0.7	0.3	¼	0
Price competitiveness	-0.8	-0.6	-½	¼
Contractual wages market sector	1.5	0.8	1¾	2
Compensation per employee market sector	3.5	1.4 (1.8)	1 (1¼)	2
Unit labour costs in manufacturing	-1.4	0.3	-3¼	-1¾
<b>Labour market</b>				
Unemployment rate (level in % of labour force)	6.5	6.5	5¾	4½
Unemployment (x 1000)	479	483	420	345
Employment (labour years)	-1.6	-0.6 (-0.9)	1½ (1¼)	2
Active labour force (persons)	-1.2	0.0 (-0.3)	1¾ (1½)	2¼
Labour force (persons)	0.0	0.0 (-0.2)	¾ (½)	1
<b>Public sector</b>				
General government financial balance (level in % of GDP)	-2.1	-0.3	-0.5	-0.1
Gross debt general government (level in % of GDP)	52.6	53.0	51.0	49.6
Taxes and social security contributions (level in % of GDP)	37.8	39.4 (38.6)	39.7 (38.2)	39.5
<b>Miscellaneous items</b>				
Purchasing power	-0.4	-1.7	2	½
Individual savings rate (in % of disposable income)	-2.1	-4.3	-3½	-3
Labour productivity market sector <sup>b)</sup>	4.3	2.4 (2.7)	2½ (2¾)	1½
Price gross value added market sector <sup>b)</sup>	-0.3	-0.2	-1¼	½
Real labour costs market sector <sup>b)</sup>	3.8	1.6 (2.0)	2¼ (2½)	1½
Labour share in enterprise income (level in %)	80.0	79.3	79	79
Export surplus (level in % of GDP)	7.3	7.9	7¾	8
Long-term interest rate (level in %)	4.1	3.4	4	4¼

<sup>a)</sup> Figures between brackets have been adjusted for changes in funding schemes caused by institutional reforms in sickness, disability insurance and health care.  
For more information see <http://www.cpb.nl/eng/pub/cepmev/explanation.pdf>.

<sup>b)</sup> Excluding mining and quarrying and real estate activities.