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CPB Newsletter

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CPB Netherlands Bureau for Economic Policy Analysis

For you to decide



Debby Lanser

No one disputes the pressing need for investment in knowledge. Precisely what to invest in – now, that's where differences of opinion arise. Recently published CPB research stresses, for example, the importance of excellence in education for productivity – but how should this excellence be achieved? CPB research on knowledge policy may help policymakers to take such decisions. However, it does not provide cut-and-dried solutions. For now, more answers mainly result in new questions.

Imagine that you've been allocated a budget of two billion euros to spend on new education policy – on one condition: the measures should optimally increase productivity. No problem, you think. The return to education is large. Empirical research shows that a one-year increase of the mean level of education could result in a production growth of 8 percent. Still, you've got to determine the measures you plan to take. Would you opt for class size reduction, a rise in teachers' salaries, subsidies for excellent students (or the opposite for potential drop-outs), more stringent inspection at schools, or a combination of these measures? Suddenly, the question doesn't look that simple anymore.

The effects of education policy on human capital and productivity are hard to measure. An important difficulty concerns the determination of causality between the policy adjustment and an increase in human capital. Do children really learn more in smaller classes, or are the more intelligent children in smaller classes because their

parents make conscious choices about their children's education? Fortunately, so-called natural experiments provide policymakers with increasingly more grips with which to determine causality and to measure policy effects. This type of empirical research is a first step in quantifying the macroeconomic effects of education policy.

However, there is still a long road to travel. Next to proper insight into the mechanisms along which education policy affects productivity and the economy as a whole, three issues deserve particular attention.

First, the effects of education policy manifest themselves in the long run. You don't see the pay-off from an investment in preschool education for at least 20 years. How can we then incorporate these long-term effects into the analysis of the election programmes, which target an administration term of four years? Second, although empirics show that under given circumstances with a given effort a certain result may be achieved, they don't reveal, for example, whether a three times larger investment will result in a three times stronger effect. And can we expect similar results in a different country? Finally, we must also consider the way in which different policies and institutions interact. For instance, does the availability of a well-educated workforce somehow propel companies to greater levels of R&D investment? If so, would simultaneous stimulation of investments in human capital and R&D strengthen their effects?

Many questions remain. Take your time before you decide. In the meanwhile, we will strive to present a balanced analysis. □

Debby Lanser, programme leader Productivity

CPB's short-term forecasts June 2007

- Dutch GDP is expected to stabilize at a robust 2.75% growth rate in 2007 and 2008.
- Domestic expenditures (private consumption, investment and government expenditures) and exports will contribute roughly equally to economic growth in 2007 and 2008.
- Tensions at the labour market are increasing. The unemployment rate will continue to fall, to 4¼% in 2008.
- Contractual wage growth is accelerating to 3.25% in 2008. Inflation is rising gradually, to 2% in 2008.
- The government EMU balance will be negative this year (–¾% GDP) and slightly positive next year (¼% GDP).

For the main economic indicators for the Dutch economy, see the back page or www.cpb.nl.



a) GDP volume growth rate compared to corresponding period in the previous year.

Recent Publications

MARCH 2007 – JUNE 2007

The following list provides an overview of recent CPB publications that have appeared in English between March and June 2007. All publications can be downloaded at www.cpb.nl. A press release on the publication is sometimes available at the website.

Special Publications

Excellence for Productivity?

Bert Minne, Marieke Rensman, Björn Vroomen and Dinand Webbink, June 2007
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Recent studies suggest that the right-hand side of the skill distribution is important for productivity, especially in countries that already have a high level of productivity. An empirical analysis of the Dutch skill distribution reveals that on average, the Dutch skill level is high, but this level is mainly based on the relatively high skill level at the left-hand side of the skill distribution. The findings on the skill distribution are robust for several skill surveys, age groups and over time. Results show that there is scope for improvement of skills at the right-hand side of the distribution. Therefore, policies that raise the Dutch performance at high- and top skill levels in higher education or in earlier stages of education may improve Dutch productivity.

CPB Documents

144. SAFFIER; a multi-purpose model of the Dutch economy for short-term and medium-term analyses

Henk Kranendonk and Johan Verbruggen, April 2007
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Since late 2004, CPB has used the macro-econometric model SAFFIER for its short-term and

medium-term analyses. SAFFIER is a multi-purpose model. The quarterly version of the model, used for short-term analyses, only differs from its yearly version, used for medium-term analyses, in the specification of the lag structures. Simultaneously with the integration of SAFE and JADE, some innovations with respect to the modelling of the wage rate, private consumption, exports, the public sector and the house-price development have been incorporated. The CPB Document also presents the results for some standard shocks in twelve variants.

CPB Discussion Papers

79. The labour market position of Turkish immigrants in Germany and the Netherlands; reason for migration, naturalisation and language proficiency

CPB and Social and Cultural Planning Bureau
Rob Euwals, Jaco Dagevos, Mérove Gijsberts and Hans Roodenburg, March 2007
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On the basis of two data sets, the German Socio-Economic Panel 2002 and the Dutch Social Position and Use of Provision Survey 2002, the authors investigate the importance of characteristics related to immigration for the labour-market position of Turkish immigrants. First, they find that educational

attainment and language proficiency have a higher return in the Netherlands than in Germany. Second, second-generation immigrants have improved their labour-market position relative to the first generation of labour migrants and their partners. Third, the authors find a positive relation between naturalisation and labour-market position for the Netherlands, while for Germany there is a negative relation with tenured employment. This is due to differences in immigration policies.

80. Opening services markets within Europe; modelling foreign establishments in a CGE framework

Arjan Lejour, Hugo Rojas-Romagosa and Gerard Verweij, March 2007
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In services, the activities of foreign affiliates often exceed the value of cross-border trade. A complete analysis of services liberalisation therefore requires the modelling of FDI. This paper presents the treatment of FDI in our CGE model WorldScan based on the ideas of Petri (1997) and Markusen (2002). They assume that firms establishing affiliates abroad also transfer firm-specific knowledge. Consequently, capital and products differ from existing capital and products in the host country. As an illustration, the model is applied to assess the proposals of the European Commission to open up services markets. FDI in services could increase by 20% to 35%. However, the overall economic impact is limited.

81. Measuring lifetime redistribution in Dutch occupational pensions

Jan Bonenkamp, June 2007
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This paper quantifies lifetime redistribution in Dutch occupational pension schemes. Information about the extent of redistribution is important because it will influence the public acceptance of the pension system. The uniform contribution rate is split up into a saving share and a transfer share for different socioeconomic groups. We find that the relative size of the saving- and transfer shares strongly depends on socioeconomic characteristics, such as gender and level of education. The saving part is higher for females than for males and it increases with the level of education, which implies that uniform pricing involves a large transfer from males to females and from low educated to higher educated workers. This is caused by the fact that – on average – women and higher educated workers live longer than men and lower educated workers. □

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Re-exports and implications for performance indicators

Dutch re-exports have been expanding explosively since the mid-1980s. The exuberant growth of re-exports is no mere Dutch phenomenon, however. In all ten countries studied in recent CPB research, re-exports have grown faster than domestically-produced exports.

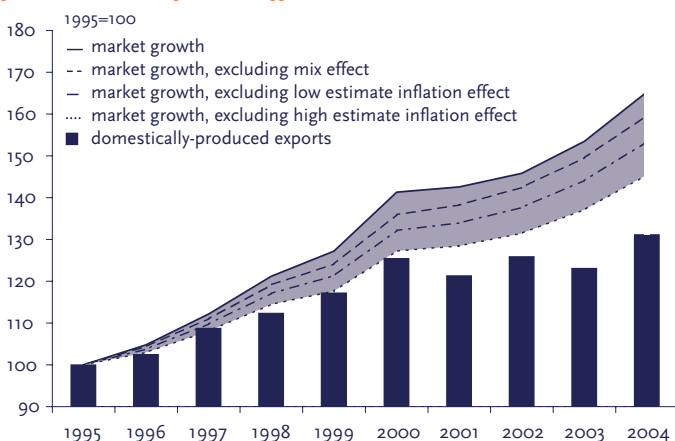
Re-export goods are recorded in the import and export statistics of several countries, and are thus counted double in world trade at least once. The international re-export trend explains in part why the volume of world trade is rising faster than the volume of world output. This observation has implications for the indicators that shed light on a country's export performance. To assess the market performance of export products, we ideally have to correct volume growth of world trade for the growth in re-exports. Very few data are available, unfortunately, on the domestically-produced exports and re-exports of other countries.

A CPB study attempts to correct 'traditional' export market growth for the implications of the international re-export trend. This involves two specific corrections, namely for the inflation of world trade due to double counting ('inflation effect') and for the different composition of the product mix of domestically-produced exports ('mix effect').

Tentative calculations reveal that between 1996 and 2000 the international re-export trend had an 'inflation effect' on Dutch export market growth in volume terms of 0.6 to 1.4 percentage points per annum on average. A lack of data prevents us from making a more accurate estimate.

Correcting for the 'mix effect' takes account of the fact that the product mix of domestically-produced exports differs from the product mix of re-exports. Between 1996 and 2000, export market growth for the Netherlands weighted against the product mix of total exports increased on average by 0.8 percentage points per annum more than export market growth weighted against the product mix of domestically-produced exports. It seems, then, that product markets where re-exports are represented relatively strongly, such as the market for ICT products, expanded faster during the past period than the main markets for 'Made in Holland' products.

Domestically-produced exports and market growth, corrected for 'mix' and 'inflation' effects, 1996-2004



As a result of the inflation and mix effects, export market growth for Dutch manufactures increased by 1.4 to 2.2 percentage points per year less on average than 'traditional' export market growth (i.e. without a correction for re-exports) between 1996 and 2000. The figure shows the volume growth of Dutch domestically-produced exports (columns), the 'traditional' market growth (upper line) and market growth corrected for the 'mix effect' and the inflation effect. It highlights the different results that stem from alternative performance indicators. As an indication of market performance, CPB usually compares the volume trend of domestically-produced exports to that of the Dutch relevant world trade. This approach results in a deterioration in the market performance by – on average – 2.6% per year between 1996 and 2000. It follows from the exploratory analysis in this study that when domestically-produced exports are compared with export market growth for Dutch manufactures, the average loss of market share ranged from 0.4 to 1.2 percentage points per annum between 1996 and 2000. There is thus still a loss of market share (as is the case for other highly developed economies), but it is significantly smaller than the loss of 2.6% per annum calculated in the previous approach. Between 2000 and 2004, the loss of market share increased steadily. The main reason for this is the trend in price competitiveness of domestically-produced exports, which deteriorated by a total of 7.5% over these years.

All in all, export market growth for Dutch manufactures has increased by less than 'traditional' export market growth in recent years. The loss of market share is therefore overestimated. The same conclusion might be relevant for other highly developed countries as well. □

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Main Economic Indicators for the Netherlands, 2005-2008

	2005 ^{a)}	2006 ^{a)}	2007	2008
	annual growth rate			
International items				
Relevant world trade volume	5.7	7.6	6	6½
Import price goods	3.3	3.6	- ½	0
Export price competitors	1.5	2.0	¾	¼
Crude oil price (Brent, level in dollars per barrel)	54.4	65.2	63	65
Exchange rate (dollar per euro)	1.24	1.26	1.34	1.35
Unit labour costs competitors in manufacturing	- 0.4	- 2.2	- 2½	- ¼
Demand and output (volume)				
Gross domestic product (GDP, economic growth)	1.5	2.9	2¾	2¾
Private consumption	0.7	- 1.0 (2.3)	2½	1¾
Gross fixed investment, private non-residential	3.1	6.4	2¾	4½
Private residential investment	5.3	5.5	4¾	3
Exports of goods (non-energy)	6.8	7.9	7	7½
of which domestically produced	1.9	4.1	3¾	3¾
re-exports	12.4	12.1	10½	11¾
Imports of goods	6.0	8.4	7	7¼
Production market sector ^{b)}	2.3	3.6	3½	2½
Prices and wages				
Consumer price index (CPI)	1.7	1.1	1½	2
Price domestic expenditure	1.7	1.4	2	2¼
Export price goods (excluding energy)	0.6	0.8	- ¼	- ¼
Price competitiveness	- 1.4	0.4	¼	0
Contractual wages market sector	0.8	2.0	2	3¼
Compensation per employee market sector	1.3 (1.7)	1.3 (1.6)	2½	4½
Unit labour costs in manufacturing	- 0.8	- 2.2	- ½	0
Labour market				
Unemployment rate (level in % of labour force)	6.5	5.5	4½	4
Unemployment (x 1000)	483	413	345	310
Employment (labour years)	- 0.3 (-0.6)	1.5 (1.2)	2	1
Active labour force (persons)	0.0 (-0.3)	2.3 (2.0)	2¼	1¼
Labour force (persons)	0.0 (-0.2)	1.2 (0.9)	1¼	¾
Public sector				
General government financial balance (level in % of GDP)	- 0.3	0.7	- 0.8	0.4
Gross debt general government (level in % of GDP)	52.7	48.7	48.0	46.0
Taxes and social security contributions (level in % of GDP)	38.2	40.0 (38.4)	39.7	40.6
Miscellaneous items				
Purchasing power	- 1.7	2.1	1½	- ¼
Individual savings rate (in % of disposable income)	- 2.8	- 3.2	- 2¾	- 3¼
Labour productivity market sector ^{b)}	2.9 (3.1)	1.7 (1.9)	1¼	1¾
Price gross value added market sector ^{b)}	- 0.1	- 2.0	1¼	1½
Real labour costs market sector ^{b)}	1.4 (1.7)	3.4 (3.6)	1¼	2¾
Labour share in enterprise income (level in %)	79.0	80.2	80¼	80½
Export surplus (level in % of GDP)	7.7	7.8	7¼	7½
Long-term interest rate (level in %)	3.4	3.8	4¼	4½

^{a)} 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>.

^{b)} Excluding mining and quarrying and real estate activities.