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CPB Newsletter

2005 March

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CPB Netherlands Bureau for Economic Policy Analysis

Managed care in the Netherlands: will it fly?



Marc Pomp

The Netherlands is about to embark on a major reform of the health care sector. Over the coming years, the existing system based on tight regulation of prices and volume will be replaced by a system based on managed competition. In this new system, health insurers are expected to compete for customers and to enter into serious negotiations with health care providers about price, volume and quality. Entry of new providers, including for-profits, will become easier.

This new model shares a number of features with the American system of managed care. Managed care, which is also based on competition, has been successful in containing costs for a brief period in the 1990s. In recent years, US health costs have been soaring again and economists have become sceptical about managed care. "Managed care seems not to have met the market test", is the verdict of Mark Pauly, an American health economist (The Economist, July 17, 2004).

Are the Dutch about to repeat the American mistakes? I think the answer is probably 'no'. True, making competition work in health care is not an easy trick to pull off. However, a number of checks and balances have been put in place that were lacking in the US. Thus, there will be a legal obligation for insurers to accept every applicant at equal terms. Low incomes will be compensated for the initial rise in premiums through income-dependent tax credits. Mandatory participation of insurers in a risk-equalisation

scheme will limit selection of good risks. Together, these measures should ensure access to health care for every Dutch citizen. Another important difference is that, whereas in the US employers usually choose a health insurer for their employees, in the Netherlands individuals will choose for themselves. The reason for this difference is that in the US, direct employer contributions to health insurance are tax exempt. In the booming years of managed care, many US employers contracted with health insurers who kept costs down by selectively contracting with health providers. Employees protested when they discovered that their choice of provider had become restricted. As they saw it, employers were saving money by economising on their health insurance. Dissatisfaction among employees and a tight labour market led employers in the late 1990s to demand less selective contracting. This undermined a central pillar of managed competition.

By contrast, in the Netherlands the insured will largely decide for themselves whether or not to go for a cheaper insurance with limited choice of provider (a so-called preferred provider policy) or for a more expensive insurance covering any provider. Unlike the situation in the US, the insured will face the full difference in price between the various types of coverage. Probably, this will lead to a wider acceptance of selective contracting.

There is an important lesson here. Policymakers often defend the introduction of competition in health care by claiming that this will lead to more choice for consumers. While this is true for the type of insurance coverage, it is not necessarily true for the individual's choice of health care providers. The successful introduction of managed competition will require insurers to contract selectively with providers. In this sense, consumers will have less to choose, not more. □

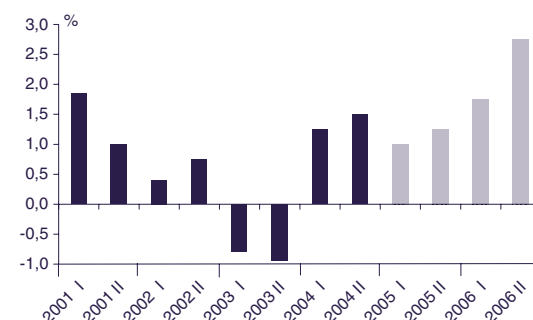
Marc Pomp, programme leader Private sector

CPB's short-term forecasts March 2005

- In 2005, Dutch GDP is expected to rise by 1%. Economic growth can accelerate to 2¼% next year.
- This year, decreasing real disposable income causes a small dip in private consumption. For next year, consumption prospects are more favourable: +1%.
- In 2005 and 2006, private investment and employment are expected to recover. Unemployment will reach a peak this year.
- Inflation continues to fall, to ¼% next year.

See the back page for the main economic indicators for the Dutch economy, or www.cpb.nl for more information.

Economic growth in the Netherlands, 2001-2006 ^{a)}



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

Recent publications

DECEMBER 2004 – MARCH 2005

The following list gives an overview of recent CPB publications that have appeared in English between December 2004 and March 2005, ranked according to publication series. An abstract is included when studies are of particular relevance to the academic community or cover a topic interesting to international policymakers. All publications can be downloaded at www.cpb.nl. A press release on the publication is often also available from the website.

CPB Discussion Papers

42. *Services trade within Canada and the European Union. What do they have in common?*

Arjan Lejour and Jan-Willem de Paiva Verheijden, December 2004
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In this study, CPB analyses bilateral services trade between the provinces of Canada and between the member states of the European Union, using a gravity equation, and compares the results with trade in goods. The researchers conclude that the gravity equation explains the variability in services trade very well: market size of the exporting and importing regions and distance are the most important explanatory variables. On average, distance is a smaller hindrance for services trade than for goods trade. Differences in languages and the regulation of product markets hamper services and goods trade in Europe significantly. Trade in services is also hampered by regulation in the importing country, but this is not true for goods. Services trade within Canada is twice as high as within Europe, measured as share of GDP. Tentative estimates suggest that intra-EU services trade could be much higher if the internal market would function like the Canadian services market.

CPB Documents

73. *Better safe than sorry? Reliability policy in network industries*

Victoria Shestalova, Machiel Mulder and Marcel Canoy, December 2004
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This report develops a roadmap for reliability policy in network industries such as distribution of electricity and water networks. Proper rules are more important for the reliability of networks than the question whether government owns these networks or not. International comparison of several networks demonstrates that public and private networks often are equally reliable provided that the government applies adequate price and quality regulation. As private companies are normally more efficient, privatisation may increase welfare in these cases.

75. *Police numbers up, crime rates down. The effect of police on crime in the Netherlands, 1996-2003*

Ben Vollaard, January 2005
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See the article on page 3 of this Newsletter.

79. *Measuring lifetime redistribution in Dutch collective arrangements*

Harry ter Rele, February 2005
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The aim of this study is to measure as comprehensive as possible how the Dutch system of collective arrangements affects the different income groups in society. This requires that all redistributing arrangements are incorporated in the measurements and that these measurements include the entire life cycle. This study is the first one to give a comprehensive insight in the consequences of collective arrangements on welfare inequality.

This study demonstrates that taxes, social premiums, and government spending reduce differences in welfare considerably. Measured over the full life cycle,

the average income of people with an academic degree is 3.5 times as high as the average income of people with only primary education. Reckoning with taxes, premiums and the profit of government spending, this difference diminishes considerably. Total welfare of the highest educated group comes out only twice as large as the least educated group.

CPB Memoranda

102. *Intra-EU trade and investment in service sectors, and regulation patterns*

Henk Kox, Arjan Lejour and Raymond Montizaan, November 2004

104. *FAQs about oil and the world economy*

Douwe Kingma and Wim Suyker, December 2004

Colofon

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More police helps

Since 1995, the regional police forces have hired some 10,000 additional staff. What is the impact of this hike in police hiring on public safety? Media reports tend to be critical about police effectiveness, occasionally pointing at the considerable time police officers spend at the police station. Despite this scepticism, the call for more police personnel remains strong. It is time for a closer look at the effectiveness of the Dutch police.

The trends in victimisation of crime and nuisance suggest that the influx of police personnel is having an effect. The Politiemonitor Bevolking, a yearly telephone survey among some 80,000 Dutch citizens, shows that most types of crime and nuisance have been on the decrease over the last ten years. For instance, the percentage of homes that were broken into declined by 40 percent during 1996-2003. The percentage of cars stolen showed a similar decline. The perception of safety also improved. The percentage of people who frequently felt unsafe declined by 30 percent between 1996 and 2003. Apparently, answers on questions about the safety in the own neighbourhood provide a more positive picture of people's perceptions than general feelings of safety reported in the media.

Not surprisingly, chiefs of police are having a good time. They are quick to attribute the crime drop to better police work. Indeed, we may expect the police to bring down crime – in particular given the strong growth in their resources – but how much of a difference they make is uncertain. In recent years, in particular American researchers have been working on the development of new methods for finding an answer to this question. Thanks to these efforts, we are now in a better position to distinguish the effect of police work from many other factors affecting crime rates.

The recent CPB report *Police numbers up, crime rates down. The effect of police on crime in the Netherlands, 1996-2003* shows that the increase in police personnel indeed made a difference. In the period 1996-2003, the growth in police personnel resulted in a 10 percent decline in victimisation of crime and nuisance. Offenders do not simply move their activities to other areas if police personnel is allocated to a specific location. There could be some displacement effects, but overall more police results in less crime. Thus the police forces have been able to lower the overall level of crime through hiring more personnel.

For several types of crime and nuisance, we find a greater impact of more police personnel in urban areas than

in rural areas. For instance, the estimated effect of more police on burglaries is twice as large in the four most urbanised police regions as in the rest of the country, and the effect on nuisance from youth is three times as large. Thus redistributing police personnel from rural to urban areas would contribute to the goal of lowering the national level of crime and nuisance. Of course, there are also other considerations when distributing police resources, including a timely response to calls for emergency assistance in rural areas.

How to *enhance* police effectiveness is still very much an open question. Research into the effects of different methods of policing is scarce. Additionally, better insight into the flows of criminal cases from the police to the courts and beyond could contribute to better coordination within the criminal justice system. By studying the impact and also the costs and benefits of alternative ways of improving safety, policy makers and the police will be able to make better informed choices when spending scarce police resources. Evaluation research not only sheds light on the effect of 'more blue', but also on how to achieve 'more effective blue'. ▢

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Main Economic Indicators for the Netherlands, 2003-2006

	2003	2004	2005 ^{a)}	2006 ^{a)}
	annual growth rates %			
International items				
Relevant world trade volume	4,8	7,4	6¼	7
Import price goods	– 1,2	1,3	– ¼	– 2
Export price competitors	– 4,7	– 1,2	– ¾	– ¾
Crude oil price (Brent, level in dollars per barrel)	28,9	38,1	40¼	35
Exchange rate (dollar per euro)	1,13	1,24	1,30	1,30
Unit labour costs competitors in manufacturing	– 5,6	– 4,7	– 1½	– 1
Demand and output (volume)				
Gross domestic product (GDP, economic growth)	– 0,9	1,4	1	2¼
Private consumption	– 0,9	0,5	– ½	– 2¾ (1)
Gross fixed investment, private non-residential	– 3,5	1,6	2¼	5¾
Private residential investment	– 4,2	2,5	3	3½
Exports of goods (non-energy)	0,5	8,2	4½	7¼
of which domestically produced	– 0,8	3,2	2¼	3¾
re-exports	2,2	14,9	7½	11¼
Imports of goods	1,0	7,5	3½	6¼
Production market sector ^{b)}	– 1,3	1,3	1½	3
Prices and wages				
Consumer price index (CPI)	2,1	1,2	1¼	¼
Price domestic expenditure	2,6	1,4	1	½
Export price goods (excluding energy)	– 0,6	– 0,1	– ½	– 1¼
Price competitiveness	– 5,9	– 2,4	– ¾	½
Contractual wages market sector	2,7	1,5	¾	1
Compensation per employee market sector	3,8	2,6	¾ (1¼)	– ¼ (¼)
Unit labour costs in manufacturing	3,5	– 2,1	– 1	– 2¾
Labour market				
Unemployment rate (level in % of labour force)	5,1	6,2	6¾	6¼
Unemployment (x 1000)	396	479	515	480
Employment (labour years)	– 1,0	– 1,3	0 (– ¼)	1¼ (1)
Employment (> 12 hours/week)	– 0,5	– 0,9	¼ (0)	1½ (1¼)
Labour force (persons)	0,8	0,2	¾ (½)	1 (¾)
Public sector				
General government financial balance (level in % of GDP)	– 3,2	– 2,5	– 2,0	– 1,7
Gross debt general government (level in % of GDP)	54,3	55,8	58,1	58,1
Taxes and social security contributions (level in % of GDP)	39,3	39,4	39,5	41,6 (39,9)
Miscellaneous items				
Purchasing power	– 1,2	– 0,2	– 1¼	½
Labour productivity market sector ^{b)}	0,8	3,5	1¾ (2¼)	1¾ (2)
Price gross value added market sector ^{b)}	2,3	0,0	½	¼
Real labour costs market sector ^{b)}	1,4	2,6	¼ (½)	– ½ (0)
Labour share in enterprise income ^{b)} (level in %)	86,9	86,6	85½	83¾
Export surplus (level in % of GDP)	5,0	5,2	5¾	5¾
Long-term interest rate (level in %)	4,1	4,1	3¾	4¼
Short-term interest rate (level in %)	2,3	2,1	2	2¼

^{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/cepmev/explanation.html>.

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