

Focusing on quality

Report from the CPB Review Committee 2010

March 2010

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Summary of main findings

Quality of Work

- In bridging the gap between academic research and policy making, CPB provides high quality research.
- CPB uses up-to-date, standard economic methodology.
- Scientific quality could be further enhanced through a more systematic effort at publishing in academic journals and a more systematic use of links to the academic community (external quality control), a more consistent use of internal seminars and a more open and critical scientific culture (internal quality control).
- Quantitative forecasting models appear to be playing a central role in most research areas in the CPB. The Committee believes that too many resources are devoted to this kind of model-building at the expense of other forms of policy-relevant empirical work, including a more thoughtful use of theory to guide descriptive analysis and reduced-form empirical work.

Policy Impact

- CPB has a clear value-added for policy making in the Netherlands, setting a standard for intellectual discipline in what could otherwise be disparate political debates.
- CPB should add to its role in Dutch policy debate by educating policy makers, the media, and the wider public on the uncertainties involved in forecasting and cost-benefit analysis.
- The impact of CPB publications appears to be good.
- The intended audiences of the different CPB publications series are not always clear; the Committee urges CPB management to review the publications strategies and intended audiences of each of the different outlets and make appropriate changes.

Research Topics and Resource Allocation

- The Committee welcomes the new research capacity in financial economics.
- With regards to the environment and climate change, the Committee recommends CPB develop a clear strategic vision on the role it wants to play in these research areas.
- In terms of resource allocation, CPB faces a trade-off between breadth and depth. Some need for breadth is inherent in CPB's mission. However, there is a danger of spreading activities too thinly. Some depth (and critical mass) is needed to maintain high standards. Depth and focus in limited areas can potentially strengthen the institution's scientific culture, further increase the quality of policy research and generate more opportunities for scientific spin-off.
- The Committee recommends considering options to minimise the trade-off between breadth and depth, such as organising a quick response to policy questions in some areas (based on surveys of the best available literature rather than own research) and reviewing CPB's financing rules to capitalise on unexploited options for external funding (which may enable more in-depth research).
- Regarding CPB's work plan, the Committee recommends reviewing the procedures to draw up these plans, including (the application of) criteria used for programme and project selection and termination.
- A substantial part of the forecasting resources seem to be spent on increasing the level of forecasting detail, in an attempt to respond to perceived demand from customers and to increase the credibility of the forecasts. The Committee recommends CPB consider whether such a level of detail is in fact necessary to meet these goals. Cutting back on detail could free up resources to further improve forecast quality/accuracy or to be spent elsewhere.

Structure and Organisation

- The Committee understands a division into sectors or units is needed for reasons of span of control. However, the Committee has been unable to understand the logic behind the existing sector structure, which seems to reflect several guiding principles at the same time. The current structure raises issues of heterogeneity of programmes within sectors and issues of links between sectors covering related issues.
- If CPB considers reorganising its sector structure, the Committee recommends first determining the dominant organising principle(s) for the new structure. These organising principles should be sustainable for some time and might be driven by research areas, methods employed, or a combination of both (a matrix arrangement).
- In devising a new organisational structure, particular attention should be paid to the location of public finance. Arguably, public economics should be at the core of what the CPB does. However, it currently straddles several sectors without being the clear focus of any of them.
- Whatever organising principle is chosen, an effective structure for coordination and communication between the different sectors is key. The Committee has the impression that there is room for improvement in the communication between the sectors on issues such as data sharing and project selection.

1. Introduction

CPB Netherlands Bureau for Economic Policy Analysis (CPB) has a unique position in Dutch society. CPB forecasts for the short- and medium term set the framework for political negotiations on the budget, and their policy analyses are deemed to be authoritative in many policy areas. CPB is independent, but at the same time well embedded in the policy making process.

This unique, quasi-monopoly position of CPB provides the Netherlands with the benefit of having one trusted authority for economic policy analysis, which acts as a single voice. The CPB's work provides a common framework for policy discussions, which helps to discipline the policy debate. This quasi-monopoly, however, comes with a heavy responsibility. CPB forecasting and research regularly change policy outcomes, which makes internal and external quality control of CPB work all the more important. It also makes finding the right incentives for efficiency and effectiveness an important task for the CPB leadership and the departments providing the core funding of the institution.

The scientific review of the CPB, which takes place every five years, is part of the external quality control of the institute. The Central Planning Committee (CPC), acting as a supervisory board for the CPB, has commissioned this Review Committee to evaluate the scientific work of CPB. Annex 1 provides the composition of the 2010 Review Committee. The Committee welcomes the pro-active stance of CPB regarding its external quality control, and hopes the results of this review will help the bureau to make informed decisions about its future direction.

1.1 Terms of reference

The task of the 2010 Review Committee is to judge the scientific quality of the work done by CPB in the period 2003-2008/2009. The Committee is also invited to comment on any characteristics of CPB affecting the quality of the work, in the field of organisation, management, HRM, work plan procedures and work practices.

More specifically, the Central Planning Committee has asked the Review Committee to evaluate the following issues:

1. The scientific quality of CPB work and its value-added for policy;
2. The adequacy of the analyses in terms of the theories endorsed and the methods employed;
3. The quality of the forecasts;
4. The performance of CPB compared to foreign 'sister' institutes such as CEPII (France), ETLA (Finland), IFO (Germany) and NIESR (UK);
5. The dissemination of CPB products: outlets (including reports, articles, congresses, press releases), reach and impact;
6. The allocation of resources to subject areas: Does CPB cover the right topics, and is the allocation of resources to the topics adequate?
7. Organisation, management and HRM.

1.2 Procedure

The Review Committee has gathered the information to fulfil its task by means of the following procedure.

From January 19th through 22nd 2010 the Committee visited the bureau. CPB prepared an extensive program of meetings (interviews) with CPB staff (different sectors, board of directors, and staff in charge of internal affairs and HR), members of the academic community (many of whom are current or former Academic Partners of CPB), other institutes in the

Netherlands, members of the press and representatives of Dutch civil service. Annex 2 provides a list of the persons interviewed by the Review Committee.

In addition to the originally scheduled discussions with directors, sector heads and program leaders, as well as outside experts, the Committee also met with CPB researchers outside management, to get a broader perspective from the work floor. The Committee also had the different sectors each present a research project to illustrate the quality of the work and the methods employed, and it joined an internal CPB research seminar.

At the end of the site visit the Review Committee shared its preliminary findings with the board of directors. In March 2010 the chairman of the Review Committee presents the Committee's findings to the CPB staff and the CPC.

1.3 Thanks

The Committee wants to thank all the people who have supported its work and made its task easier. In particular, the Committee thanks all interview partners, external and internal, for being very generous with their time and their advice; it was impressive to see how all participants, even when they expressed criticism, were motivated by a serious concern that the CPB was a special Dutch institution that was well worth caring about.

The Committee is also grateful for the hospitality of CPB during the visit. The CPB management and staff went out of their way to make the visit as smooth as possible, including a quick adjustment to the Committee's on-site wishes for additional meetings with (young) non-management researchers and for research presentations.

Last but not least, the Committee wishes to thank Jante Parlevliet and, most particularly, Alexandra van Selm from the Sociaal-Economische Raad for their help during the visit and in the preparation of this report. Without their help and their competence, the Committee's task would have been much more difficult.

1.4 Structure of this report

This review report starts by addressing the specific issues mentioned in the terms of reference, including an evaluation of the overall quality of CPB work and some general recommendations by the Committee. It then goes on to add some specific comments on the work done in each of the CPB sectors.

2. General issues affecting quality of CPB work

2.1 Scientific quality of CPB work and value-added for policy

The Committee judges the CPB work to be of solid scientific quality. In bridging the gap between academic research and policy making, CPB provides high quality research. CPB policy analyses and forecasts are taken very seriously in the Dutch policy debate. This is an indication of the significant value-added it provides for policy making in the Netherlands.

This judgement of scientific quality is based on the research presentations, the interviews with the different sectors and the academic community working with the CPB rather than an extensive examination of the CPB output (in terms of policy analyses and academic articles) by the Committee.

The Committee feels the scientific quality of CPB work could be further enhanced in two ways, related to external and internal quality control.

2.1.1 Academic publications and linkages

External quality control can be enhanced through a more systematic effort at publishing in academic journals and a more systematic use of links to the academic community and other institutions. Academic publications and academic relations can serve as a quality benchmark for CPB work. At present, there appears to be considerable variance between the different sectors in this regard, both in the share of academic publications and in the extent to which full benefits are drawn from academic linkages. Section 2.9.1 provides some more detailed recommendations on the incentives for academic publications.

The CPB has instituted a programme of academic partners to help support the academic quality of its work. In a number of cases, this works well in providing feed-back and constructive input. However, the use of academic partners seems to vary across programmes and sectors. Where limited use is made of the academic partner, the impact will be correspondingly small, raising questions about incentives for making appropriate use. Where the appointment of an academic partner does little more than recognise a pre-existing research collaboration, the question may be whether the programme contributes new perspective and sufficient constructive criticism. The Committee recommends establishing a few basic criteria for the selection of Academic partners and some guidelines on the most effective use of these partnerships. Staff exchange on how academic partners are consulted within research projects (e.g. as part of the internal seminars) may also help to draw full benefits from this arrangement.

A number of CPB staff have part-time positions in academic institutions. This appears to be an effective vehicle for ensuring cross-fertilisation between academic research and more policy-oriented work at CPB. Continued encouragement of such linkages seems warranted.

2.1.2 Internal quality control

Internal quality control can be enhanced through more consistent use of the internal seminars at the beginning, middle and end of each research project and a more open and critical scientific culture. The Committee heard different accounts of the extent to which these seminars actually take place. It also appears that the kick-off seminar is not seen as a critical moment – the Committee did not hear about any projects being discontinued as a result of this seminar.

Research is a risky endeavour and all researchers make mistakes from time to time. The Committee has not heard much about the way in which research project are evaluated and

the process of learning from mistakes. It can be hard to be open and critical when there is no culture of critical self-evaluation. Fostering such a scientific culture can contribute to setting clear priorities, making the right choices about the work plan and further improving the scientific quality of CPB work. Some internal evaluation capacity providing periodical reviews of the work done by the different units may also enhance quality control and consistency across departments.

2.2 Adequacy of analysis (theories and methods)

The Committee affirms the adequacy of CPB analysis in terms of theories endorsed and methods employed. CPB uses up-to-date, standard economic methodology. The cost-benefit analysis (CBA) used by CPB follows best-practice principles used by other institutions. An open question is whether CPB should incorporate more behavioural economics in its research.

Quantitative forecasting models appear to be playing a central role in most research areas in the CPB. The Committee believes that too many resources are devoted to this kind of model-building at the expense of other forms of policy-relevant empirical work, including a more thoughtful use of theory to guide descriptive analysis and reduced-form empirical work.

The attention paid to quantitative forecasting models also detracts from the aim of doing more innovative, publishable work. Most academic partners seem to be involved with empirical work as opposed to model-building exercises, and emphasising empirical research may generate more possibilities to reach out to academics. CPB has something to offer to academics in terms of collaboration in empirical projects, including data acquisition and maintenance.

2.3 Quality of the forecasts

The Committee finds it difficult to judge the quality of the CPB forecasts, since it has not examined the CPB forecasting models and procedures in great detail. From the information provided by CPB, it appears CPB forecasts generally compare favourably to the forecasting by other (inter)national organisations.

Like a number of other institutions, CPB has experienced large forecast errors in the context of the financial and economic crisis. While this phenomenon is widespread, it nonetheless raises questions as to what can be done differently. Options to consider include improved monitoring of financial conditions; considerations of the way in which exogenous information like sentiment/survey-based evidence and more anecdotal evidence can be used more systematically in addition to more conventional information sources; and more systematic analysis of risks and vulnerabilities.

The Committee was also told (by outside observers) that CPB could have done more to explain the reasons behind the adjustment of forecasts during the economic crisis.

In general the Committee feels too much faith is put in forecasting by policy makers and the media. The CPB should play a role in educating policy makers and the wider public on the uncertainties involved in forecasting. More extensive risk analysis, more information on the model and more qualitative information supplementing the results of the short-term forecasts are options to consider here.

2.4 Performance of CPB compared to sister institutes

CPB is quite unique in its combination of being close to government and still being independent. Moreover, some of the work undertaken by CPB (in particular the forecasting

work) is done inside the Ministry of Finance in other countries. As such, it is difficult to find the right comparison in terms of 'sister' institutes.

In terms of the institutes listed in the Terms of Reference, the Committee feels the CPB compares quite favourably to these institutes.

ETLA in Finland is in some ways comparable to CPB, but smaller in size (about one quarter of CPB measured in terms of staff). It is organised in a forecasting unit and three research programmes: business economics research, labour market and education economics research, and public finance and economic policy research. The Committee has the impression that ETLA has a similar productivity measured as output per researcher. It is difficult to compare quality, but CPB has more publications in internationally well-recognized journals.

ifo in Germany is difficult to compare because, in addition to the fixed resources at ifo, there are significant funds available to CESifo GmbH, which can be spent freely and flexibly to acquire outside expertise as the demands of the day require.

CPB's output does compare very favourably, in terms of research methods and research topics, to the "old" ifo, as well as other German institutes such as DIW Berlin, RWI Essen and the Kiel Institute for the World Economy.

Compared to NIESR in the United Kingdom, the CPB compares favourably in terms of its publication record and the breadth of its research. The CPB's publication record is not as strong as the other large UK research centres such as the IFS and the CEP (at LSE). However, these organisations are of a somewhat different nature.

The Committee suggests that the CPB also compare itself to institutes that share the specific combination of being independent and formally being a part of the government, such as Australia's Productivity Commission¹.

2.5 Dissemination of CPB products: outlets, reach and impact

CPB has several publications series such as Special Publications, Documents, Discussion Papers, Memoranda and Communications. The Committee appreciates the need for different series, but is not clear on the intended audience for each of these series. In particular, the intended audience of the CPB Documents series seems unclear: it was suggested to the Committee that these documents are too technical and too long for policy makers, while not being sufficiently innovative or of sufficient academic quality to be of interest to the academic community. Translating research results into a combination of a policy brief for policy makers and a discussion paper aimed at publication in an academic journal might serve these two audiences better.

In general, the Committee urges CPB management to look into the publications strategies and intended audiences of each of the different outlets and if necessary, make the appropriate changes.

From the information given by policy makers, academic community and media the impact of CPB publications appears to be good. The Committee did not gather any information on the dissemination of outlets such as congresses or press releases.

¹ The Productivity Commission is the Australian Government's independent research and advisory body on a range of economic, social and environmental issues affecting the welfare of Australians. Its role is to help governments make better policies in the long term interest of the Australian community (Source: Website Productivity Commission).

2.6 Research topics and allocation of resources

2.6.1 Research topics

With regard to research topics, the Committee welcomes the addition of research capacity in financial economics. Financial institutions and financial markets will remain an important topic in the coming years. Moreover, the crisis has shown that traditional macroeconomic forecasting requires some awareness of what is happening in the financial system. Since both CPB and DNB appear to have limited research capacity in this field at present, some consideration should be given to possibilities for coordination and cooperation.

Several independent external observers have commented very favourably on the decision taken by CPB in the past to have a focus on the economics of aging.

Some external observers, however, commented that CPB may have been staying with this topic for too long and has been doing too little too late in addressing issues concerning the environment and climate change. The Committee is not convinced that CPB has a comparative advantage in this area, both in terms of technical expertise and in terms of connections with the relevant policy institutions. CPB work on the environment and climate change is spread over several different sectors and the comments of the outside observers suggest its impact and visibility within the Netherlands have been limited so far. The Committee recommends CPB develop a clear strategic vision on the role CPB wants to take in research and policy analysis in this area.

The Committee also recommends that CPB review its commitments to existing programs on a regular basis. For the program on aging, a relevant question might be to what extent the expansion of academic research, e.g., in the context of NetSpar, might provide room for CPB to reduce the resources devoted to this program in order to put more resources elsewhere.

The Committee has not gathered any information by which to judge the desirability or the expected outcome of the new programme on social cohesion.

2.6.2 Allocation of resources

In terms of resource allocation, there is a trade-off between breadth ('CPB should contribute their economic analysis to all major policy question in the Netherlands') and depth ('CPB should build up expertise in a select number of areas and excel at those').

Some need for breadth is inherent in CPB's mission, and CPB clients also seem to demand that CPB cover a wide range of policy topics. However, the tendency to spread activities very broadly may also reflect a kind of 'monopoly'-thinking within the CPB, that it is 'better that we do it', than leaving it 'to someone else'. There is an inherent danger in spreading activities too thinly. Some depth is needed to maintain high standards. To achieve this depth requires a critical mass in individual areas. Because of resource constraints, this is naturally limited to particular programs. Even so, depth and focus in limited areas have a potential for strengthening the institution's culture, increasing the quality of policy research, and generating scientific spin-offs in all areas.

As a way of maintaining breadth, it might be worth exploring ways of organising quick responses to policy questions that are based on surveys of the best available research (literature review, policy briefs, etc.). For some topics, this might be an effective way of responding to the demand of policy makers without initiating new research which would require more resources and have a much longer lead time.

The Committee also recommends reviewing CPB's financing rules on the shares of core funding and external funding with a view to achieving a better balance between depth and breadth of research topics, and capitalising on unexploited options for external funding. For new policy questions that require some in-depth research for a limited amount of time, it might be possible to attract funds for a few years through the European Commission's programs; the networking that these programs usually involve should also benefit CPB's capacity to deal with such questions.

With regards to forecasting, the Committee would like to reiterate the recommendation of the Zimmermann Committee to consider shifting resources from forecasting and modelling to doing more policy analysis. The Committee understands much of the forecasting work is a service function of the CPB. A substantial part of the forecasting resources seem to be spent on increasing the level of detail, in an attempt to respond to perceived demand from customers and to increase the credibility of the forecasts. The Committee recommends CPB consider whether such a level of detail is in fact necessary to meet these goals. Cutting back on detail could free up resources that could either be aimed at improving forecast quality/accuracy or be spent elsewhere.

2.7 Work plan procedure

On paper, CPB appears to have a relatively structured procedure to prepare its work plan. In consultation with clients and CPC, the CPB management draws up a work plan in terms of *programmes*. Input from the work floor is then used to draft a detailed work plan in terms of *projects*. There is a clear list of criteria for the selection of projects.

In practice, as in all organisations, the procedure is less clear. CPB has initiated several new research programmes during the review period, but ending research programmes seems to occur less frequently. The weight attached to the different factors determining the work plan (demand from politics/government, identification of new programmes by CPB management, interest of CPB researchers) seem to differ considerably between the different programmes². The Committee is not clear on the set of criteria used for the selection of *programmes*. Moreover, the Committee has the impression that the list of criteria for the selection of *projects* is not consistently applied.

Clarification of the selection criteria for programmes and projects may also be useful in terms of communicating with the CPB's direct clients and may help underpin the practice of CPB ultimately deciding its own work plan. It may also be helpful in the context of preserving discretion about the work plan to better communicate – and, if need be, define – the process through which the work plan is decided.

There appears to be room to involve academic partners and other academic experts more in the project selection process. This could take the form of a periodic brainstorm on the main policymaking questions CPB should focus on in the short and medium term, and what possibilities these offer for scientific spin-off.

Given the above, the Committee recommends CPB management reviews the strategic procedures to draw up the work plan, including the (application of) criteria used for programme and project selection, and project termination.

² Perhaps this is also related to the source of financing, but the Committee has not received financial information by which to judge this relationship.

2.8 Organisational logic

The Committee understands a division into sectors is needed in the organisation for reasons of span of control. It is also clear that the forecasting unit may need a different control structure compared to the research programmes. However, the Committee has been unable to understand the logic behind the existing sector structure. The existing sector structure seems to reflect several guiding principles at the same time, demands from the political system, fields, types of analysis, historical accident, and the desire to have sectors of roughly equal size so that management burdens are shared equally among sector heads.

This structure raises issues of heterogeneity of programmes within sectors and issues of links between sectors covering related issues. It is not always clear why particular research programmes are allocated to their current sectors. Sometimes communication across sector boundaries seems to play a greater role than communication within a given sector. Even so, there may be questions about the impact of the current sector structure on staff mobility and cross-programme fertilisation. There may also be question about the CPB's ability to have sufficient focus in certain areas.

A striking example is provided by the area of public economics, in particular public finance. Arguably, public economics should be at the core of what CPB does. However, it straddles several sectors without being the clear focus of any of them. Thus, tax policy is a major concern for Sector 5 in its housing program, but it also comes into Sector 1 in a rather peripheral way, and presumably Sectors 3 and 6. Public finance is also partly subsumed in the welfare state programme, which is in a sector heavily focused on labour market issues.

If CPB considers reorganising its sector structure, the Committee recommends first determining the dominant organising (driving) principle or principles for a new structure. What is the logic of organising sectors in a certain way? The organising principles should be sustainable and remain relevant for some time. They might be driven by research areas or by methods employed. If the CPB wants to rely on both, research area and research method, it might also consider using a kind of matrix arrangement.

The requirement that organizing principles should be sustainable for some time militates against a reliance on policy demand as an organizing principle. Sector 3 seems to have been created in response to outside demand for advice on prospects and policies for the knowledge economy. In terms of topics addressed as well as methods employed, however, the sector is very heterogeneous, and the individual research programs seem to be finding greater synergies with related groups in other sectors than in the same sector. If the sector structure is to have substantive meaning, it would make more sense to rely on research affinities for organization and to pull together resources from different units to respond to policy demands on an ad hoc basis if necessary.

Whatever organising principle is chosen, an effective structure for coordination and communication between the different sectors or units is key. The Committee has the impression that while there is much communication between sectors 1 and 2, there is room for improvement in the communication between the other sectors on issues such as data sharing and project selection. It may be productive to review procedures in these areas.

2.9 Human resource management

2.9.1 Incentives for academic publications

The Committee observes that publishing activity in various forms appears to be low. To some extent this may reflect the fact that some publications are very long, which reduces the

overall number; it may also reflect that some CPB work does not leave traces in print. However, the Committee's concern is that it may also reflect the incentives faced by staff.

Publishing in academic journals is an important way to monitor the quality of work and ensure that CPB staff are up-to-date with the latest research methods. The committee feels that it would be worth considering the way that staff incentives work in this regard. It appears that publishing incentives may be weak for a number of reasons: lack of incentives built into the performance management process; low external mobility of staff reducing staff interest in investing their own time in improving their human capital; and low external mobility of staff reducing internal promotion possibilities. The coincidence of weakness in all these fields could be particularly penalising.

The incentives for publishing in top journals could be enhanced in several ways. Options to consider here are a clear 'weight' to publications in staff assessment, rewards to publishing that could be monetary, time or in other metrics, a (time) reservation for scientific research aimed at publishing (e.g. 30% of each researcher's working time), and specialised coaching.

2.9.2 Training and tenure

The Committee notes that CPB seems to be doing very well when it comes to opportunities for training and secondments for its staff. The only concern here is whether the uptake of training opportunities is sufficiently high amongst employees above 40 years of age and whether the training programmes on offer are sufficiently geared to the needs of this group.

The Committee also notes that the share of young researchers (21 to 40 years) has decreased since 2002 and that the share of women among researchers and higher management is below 20 percent. These trends may be a reason for CPB to examine whether it is using the available talent pool in the most effective manner. In case of reorganisation the institute should take care not to lose the good young talent that it has trained and will need in the future.

With large numbers of staff having long tenure, versatility of staff is important to ensure sufficient flexibility of the work plan. In this context, it may be worth considering whether incentives for internal mobility are sufficient and whether the organisation into 'sectors' is conducive to such mobility.

3. Findings on the different CPB sectors

3.1 Labour market and welfare state (Sector 1)

The *Labour market and welfare state* sector conducts applied economic research on labour-market behaviour and the design of institutions in the Dutch welfare state, such as pensions, social security, life-cycle saving schemes and the tax-benefit system.

The Committee is impressed with the quality of the work in this sector. The publications on aging and the welfare state are good examples of how strategic thinking about CPB research can set the policy agenda³. The researchers working in this sector are quite well published and seem very motivated to work on the policy-research interface. The sector has strong links to Dutch academia through joint appointments, academic partner and participation in Netspar. Much of the research done in this sector feeds in to the forecasting in sector 2.

This sector appears to face few constraints. The main internal constraint is the challenge of knowledge sharing and continuity of institutional knowledge, given the amount of specific knowledge resting with particular researchers. The main external constraint appears to be finding the right human capital (PhDs with interest in and knowledge of Dutch policy making).

3.2 Short-term analysis and fiscal affairs (Sector 2)

The sector *Short-term analysis and fiscal affairs* is responsible for the short-term analyses and projections for the Dutch economy that CPB publishes each quarter. More than for other sectors, the work of this sector is determined by the CPB's role as a principal player in economic policy advice and evaluation in the Netherlands. This implies a greater 'fixity' of the outputs from the sector.

A principal output is macro-economic forecasting, with a great deal of detail in terms of wages, prices and budgetary items. While the accuracy of the short-term forecast may not necessarily be enhanced by the degree of detail provided and the related use of a large macro-model, there appears to be a demand for this detailed information from CPB's primary clients. Moreover, it is seen as a factor making for credibility to be able to provide a detailed underpinning of short-term projections. The Committee recommends CPB consider whether such a level of detail is in fact necessary to meet customer demand and to increase credibility. Cutting back on detail could free up resources that could either be aimed at improving forecast quality/accuracy or be spent elsewhere.

The costing of political party platforms seems to be a unique and valuable service that contributes to the accountability of the CPB. At the same time, CPB might want to say no at some times to limit the resources devoted to this activity.

The monthly CPB World Trade monitor is unique and widely used around the world, including several international institutions. With this publication, CPB in a sense provides an 'international public good' since no other institution maintains a comparable monitor. Given the importance of world trade for a small open economy such as the Netherlands, the Committee shares the opinion of this sector that the relatively limited resources invested in international cyclical analysis (amounting to 2 fte, staff and data analyst) are worthwhile.

Like a number of other institutions, CPB has experienced large forecast errors in the context of the financial and economic crisis. While this phenomenon is widespread, it nonetheless raises questions as to what can be done differently. Options to consider include improved

³ It should be understood that the questions raised in section 2.6.1 related to CPB staying with this topic for too long are not a reflection on the quality of CPB work in this area.

monitoring of financial conditions; considerations of the way in which exogenous information like sentiment/survey-based evidence and more anecdotal evidence can be used more systematically in addition to more conventional information sources; and more systematic analysis of risks and vulnerabilities.

Because output requirements of this sector are fixed, there is limited time for fundamental research. This may, but need not cause problems for quality. There is no problem if the fundamental research in other sectors provides enough input into the work of sector 2. There appears to be regular joint work with sectors 1 and 3, but less so with the other sectors. A more streamlined procedure to determine the work plan may offer opportunities to improve these intersectoral linkages in the research agenda. Such a procedure might also be used to prevent disaffection of researchers in sector 2 being limited to routine work as opposed to innovative research.

If CPB improves the incentives for academic publications by giving publications a clearer weight in staff assessment, the fact that researchers in this sector have fewer opportunities to produce such publications should be given due consideration.

While exchanges take place on a regular basis there may be scope for greater interaction with DNB both regarding current developments and the analytical explanations of these, as well as potential future issues and developments. In particular, some coordination and cooperation in work on financial markets and financial institutions may be called for. Likewise, there may be scope for greater mutual inspiration and exchange of experience concerning model development (including the DSGE model).

3.3 Growth, structure and knowledge economics (Sector 3)

The sector *Growth, structure and knowledge economics* conducts institutional and empirical economic analysis in the areas of education, innovation, research and development, and ICT. A major aim is to gain insight into the causes and consequences of productivity growth.

The sector is tackling important and policy relevant research topics. There is not much evidence on the website of recent high-quality publications (e.g. journal articles). There are however a large number of lengthy CPB-series papers (such as CPB Documents and CPB Discussion Papers). The Committee suggests that researchers consider whether effort would be better spent in writing policy-relevant or academic articles aimed at publication in journals and other outlets.

The programmes in this sector do not seem to fit together naturally. The Committee was told that the structure was driven by an aim to extend the SAFFIER model, and by the request from government to have more research on 'knowledge policies'. As mentioned in Section 2 of this report, requests from the demand side are not a good guiding principle for organization unless the unit that is created has internal synergies based on common methods or common research questions.

As CPB reflects on what is the most appropriate organising framework for its research programmes, it should consider whether this sector's activities should be grouped differently. For example, the programme on Macro analysis seems to have strong links with Sector 2, productivity might be better integrated with Section 6, and Education could be better integrated with Sector 1.

Education

The work on evaluation of specific policy reforms appears to be well executed, and to provide an important input into the policy process. Empirical estimates appear to play a dominant role. There seems to be considerable potential to extend this work to incorporate more

theoretical and equilibrium considerations. For example, in the study on school drop out rates that was presented to the Committee, there were a number of theoretical issues about incentive design that would be useful input for policy makers.

The Committee also suggests the researchers consider being more ambitious in publishing their work in this area. This would help to ensure the quality of their work, and could provide additional motivation to young researchers.

The public research part of the Education and Public Research programme seems to lack scale and could be discontinued unless a stronger focus on research were to be introduced in future years.

Macro analysis

The work done in this programme is mostly medium- and long term forecasting using the SAFFIER model. The programme appears to invest a lot of time in model maintenance and shares the responsibility for the SAFFIER model with sector 2, which uses the quarterly version of the model for the short-term forecasts.

The sector is also constructing a DSGE model. The general expectation about the DSGE model (echoed by other sectors) seems to be that it could complement the SAFFIER model in some aspects (e.g. forward looking behaviour) but that it will not replace the SAFFIER model.

The Committee was surprised to hear there is little contact with DNB on the DSGE model, while DNB is also constructing such a model. Other external contacts on this also appear to be limited.

The general point about CPB's role in communicating the inherent uncertainty in forecasting (see 2.3) applies to the work on macro analysis also. Because of the dominant position of the CPB it is incumbent on them to play some role in educating policy makers and the public about the uncertainty of these forecasts, and how it can be effectively incorporated into decision making processes. In particular, in the work that is done analysing the Election Platforms of the different political parties, the CPB plays a very influential role. The CPB should consider how numbers are presented, and in particular, where different parties positions are effectively the same, even though point estimates may differ, this information should be conveyed to the public.

Productivity

The Productivity programme has taken long to get to where it is currently. It seems to have been set up with the very ambitious aim of fully integrating micro-econometric analysis into a comprehensive general equilibrium model to understand productivity growth in the Netherlands. This has proved unfeasible. This is unsurprising, and the Committee suggests CPB reflect on whether a more critical evaluation process on projects at the outset could have avoided the large investment in this unsuccessful approach. This process also seems to illustrate the strong belief in the use of models inside CPB.

The programme now seems to be embarking on interesting micro-econometric work.

The Committee feels the researchers should be encouraged to consider a number of important conceptual issues in comparing productivity figures, and a number of measurement issues (e.g. measurement of prices), which seemed to be missing from the discussion presented to the Committee. A firm conceptual framework is needed in addition to empirical estimates.

The links with the EU KLEMS project seem potentially fruitful, and could be exploited further.

In general, it appears this sector could benefit from stronger external links (in particular the Macro economics and Productivity programmes) and could do more to draw full benefits from the Academic partnerships. In the case of education, the Academic partnership appears to be a formalisation of an already existing relationship, which raises a question as to the additionality of this arrangement.

3.4 Competition and regulation (Sector 4)

The *Competition and regulation* sector has gone through several rounds of reorganisation. Traditionally linked to macro economic forecasting, especially in the health area, there was a shift into micro economics in the late nineties, at that time with a focus on competition policy. Subsequently, there was a shift from general competition policy to sector-specific issues, with a focus on energy, health, and the governance of public or semi-public organizations. The studies undertaken in this sector may focus on government failures as well as market failures. Currently, the sector is also becoming home to the newly added finance capacity.

The professional quality of the research done in this sector seems to be high. The Committee has the impression that the researchers in this sector are technically very competent and use their knowledge efficiently. They are also quite well-published.

The topics covered by this sector are very heterogeneous. It is not clear that links inside the sector are any more natural than links to Sector 1 or Sector 3 for the empirical study presented (on performance based contracting in active labour market policies), to Sector 2 for forecasting, or to Sector 1 for the place of health care in the welfare state.

The trade-off between depth and breadth comes back here – health economics and energy are both very large areas, and the question is whether CPB should not restrict itself to (literature review-based) policy advice in some policy areas which are too large to cover in depth. The alternative approach is to have some discussion of policy while being highly selective in terms of research questions, which is what this sector seems to be doing. Within the given areas, topics covered are quite special. There is no pretence of covering more than a small segment of health economics or energy economics, even a small segment of policy issues that arise in these areas.

The Committee has the impression that the health care programme succeeds quite well in this latter approach by adding economic arguments to the debate on some specific policy questions. This programme also appears quite successful in involving all its researchers in both forecasting and research, with positive spin-offs in both directions.

The energy programme raises more questions; the Committee is less clear on the focus of the research there and the principles guiding the choice of specific research questions within the broader policy field. The Committee was also surprised to hear this programme has few international contacts, in particular that it has no with the European Commission. Given that many policy developments in this sector are driven by EU policy, such contacts would be advisable and might permit CPB to help the Netherlands develop a proactive rather than reactive stance to such developments at the EU level.

3.5 Physical aspects (Sector 5)

The *Physical aspects* sector undertakes analyses in the fields of mobility, infrastructure, spatial economics, housing, agriculture, nature and the environment. As such, the topics the different teams work on are very heterogeneous. Some of the programmes (e.g. mobility and infrastructure, water safety) do seem to have a strong methodological link, in the sense that they are centred around the use of cost-benefit analysis (CBA). Others (e.g. spatial and regional economics, housing and environment, nature and agriculture) use a variety of different methodologies. Relative to the number of researchers, there seem to be a particularly large number of different research projects.

The most substantive activity that seems to be unique to this sector is cost-benefit analysis of infrastructure projects. The Committee was quite impressed by the presentation on water safety and recognises its value for policy purposes (e.g. a recommended level of dike safety standards). CPB has also developed a capacity and reputation for providing second opinions on CBA done elsewhere. The CBA manual produced by CPB follows best-practice principles used

by other institutions, and is based on efficiency criteria. The Committee recognises the CBA work is undoubtedly of social value and well worth doing, although it is not the sort of work that leads to journal publications.

The Committee's considerations on communicating the uncertainty surrounding forecasts also apply to the uncertainties surrounding the outcomes of CBA. Given the weight attached to the CBA executed by CPB in the political decision making CPB has the responsibility to give due consideration to the uncertainty surrounding the CBA outcomes when presenting its results.

Another main focus of the research is the housing sector. This is a regulated sector with rent controls, social housing and tax preferences for owner-occupied housing. There are two researchers studying housing; they construct models of the housing sector, both static and dynamic, using calibration techniques to study orders of magnitude of policies. The models are not related to other models at CPB and do not feed into forecasting. Given the type of questions these researchers are working on, the Committee wonders whether this type of programme might not fit better in a sector working on public finance topics.

One person in Sector 5 is involved with a broad array of projects in agriculture, environment and nature. This includes some applied GE work, devising a sustainability monitor, studying WTO proposals for agriculture, and studying decentralization of the Common Agricultural Policy to EU member states. Even a review of what the happiness literature implies for economic policy was a topic of study. It is not clear to the Committee how many of these various issues can be addressed in depth, given the limited resources. There is some value in having a unit where such frontier and speculative ideas can be considered, but it is difficult to maintain focus and relate the work to the core work of the CPB.

In summary, while there is evidence of valuable work being done in this sector, it needs more focus. There is a large number of diverse topics that are only loosely related, making it difficult to achieve research synergies that come from having a critical mass of researchers working on overlapping topics. This sector would be particularly well served by a more general reorganisation of sectors along well-defined lines. This could be done without sacrificing the valuable work that is being done on cost-benefit analysis.

3.6 International economics (Sector 6)

The *International economics* sector has a broad research portfolio including i) globalization of the Dutch economy, ii) international aspects of climate and energy policy, and iii) EU policy issues (Lisbon agenda, Economic and Monetary Union etc). The work is unified in sharing an international/European perspective on some key policy issues, but less so in terms of methods. The Committee was told this particular grouping of programmes was partly the result of historical reasons and the use of a similar model. However, the logic underlying the organisation structure and the particular collection of research programmes in sector 6 is not clear. This reinforces the question concerning the overall organisational structure at CPB since this sector covers a number of substantive areas which overlap with other sectors.

The Committee had some difficulty in assessing the quality of the work in this sector, since there is not so much published work (yet). One critical issue is whether there is critical mass to pursue three very broad research programmes. This does not appear to be the case, and higher quality could be attained by focusing on fewer areas, which would also allow a closer interaction between the involved researchers. This point is reinforced by the fact that this sector perceives unexploited options for external funding which would allow both an expansion and more focussed research activities. They are constrained by the CPB financing rules, hence the Committee's recommendation to review these rules.

The issue of coordination across sectors and the overall priorities at the CPB is illustrated by the research on the environment and climate. The CPB is in this area in a rather paradoxical position. On the one hand the *International economics* sector has very good contacts and impacts on the European scene via the work based on the WORLDSCAN model (and some of the other sectors also do work on some related issues), but on the other hand several independent external observers share the impression that there is not much work (if any) on the environment and climate change at the CPB. The Committee recommends CPB develop a clear strategic vision on the role CPB wants to take in research and policy analysis on the environment and climate change.

The work on the WORLDSCAN model is a primary activity of the sector, and the model has been widely used. At present there are plans to extend the model to analyse issues of human capital accumulation and innovation, competition and productivity. While this may be well-founded, these extensions raise two questions. Firstly, what is the value added relative to a use of these resources on some other programme (taking into account the large irreversible investment involved in model building/extension)? And secondly, how closely is this work coordinated with other sectors and the work being done on related aspects.

The focus of research under the Globalisation programmes could also usefully be made sharper. The requests of policymakers may not be very well defined in this area, i.e. to know 'more' about the impact of globalisation, while in reality there are hundreds of different questions that can be asked in this domain. The Committee has the impression that not all projects are initiated with a clear view as to what the project should accomplish and what type of insights and implications one should expect from the work. This applies e.g. to the planned work on outsourcing. This is an important policy issue and academic research topic, but what is the value added the work at CPB is likely to contribute to this area?

Similar questions apply to some of the projects undertaken under the Europe programme. What is the comparative advantage of CPB in addressing European policy questions around the Lisbon agenda, patents and effects of the economic crisis? These questions are also related to the need to substantiate the sector's ambition to strengthen CPB's role in economic policy analyses for the EC. CPB needs to have a clear vision on this, especially since the natural monopoly argument in favour of CPB's role in the Netherlands carries less weight when it comes to European policy research.

Annex 1 Composition of the CPB Review Committee 2010

- Chairman: Martin F. Hellwig (Max Planck Institute for Research on Collective Goods, Bonn)
- Members: Torben M. Andersen (Aarhus University)
 Robin W. Boadway (Queen's University Kingston, Ontario)
 Jørgen Elmeskov (OECD, Paris)
 Rachel Griffith (University College London, Institute of Fiscal Studies, CEPR)
 Sweder van Wijnbergen (University of Amsterdam)
- Secretary: Alexandra van Selm, assisted by Jante Parlevliet (both Social and Economic Council of the Netherlands)

Annex 2 Persons interviewed by the Committee

A. Outside CPB

Scientific community

Rob Alessie, University of Groningen
Eric Bartelsman, VU University Amsterdam
Harry Garretsen, University of Groningen
Wouter den Haan, University of Amsterdam
Maarten Lindeboom, VU University Amsterdam
Hessel Oosterbeek, University of Amsterdam
Piet Rietveld, VU University Amsterdam
Eric Schut, Erasmus University Rotterdam
Jules Theeuwes, University of Amsterdam and SEO Economic Research

Other institutes

Robbert Dijkgraaf, Royal Netherlands Academy of Arts and Sciences
Maarten Hajer, Netherlands Environmental Assessment Agency
Henriëtte Prast, Scientific Council for Government Policy
Alexander Rinnooy Kan, Social and Economic Council of the Netherlands
Paul Schnabel, The Netherlands Institute for Social Research

Press

Ed Groot, Het Financieele Dagblad
Jeroen Windt, RTL Nieuws
Syp Wynia, Elsevier

Civil Service

Arjen Gielen, Ministry of General Affairs
Bertholt Leeftink, Ministry Economic Affairs
Erik-Jan van Kempen, Ministry of Finance
Maarten Camps, Ministry of Social Affairs and Employment
Bernard ter Haar, Ministry of Housing, Spatial Planning and the Environment

B. Inside CPB

Board of directors

Coen Teulings, director
Casper van Ewijk, deputy director
George Gelauff, deputy director

Labour market and welfare state (sector 1)

Ruud de Mooij, head of sector
Rob Euwals, programme leader *Labour market*
Egbert Jongen, researcher *Ageing and life cycle policies*
Ed Westerhout, programme leader *Pensions*

Short term analysis and fiscal affairs (sector 2)

Marc Roscam Abbing, head of sector
Cees Jansen, unit manager *International cyclical analysis*
Marcel Lever, unit manager *Income and prices*
Wim Suyker, unit manager *Public finance*
Johan Verbruggen, unit manager *Cyclical analysis*
Daniël van Vuuren, unit manager *Social security*

Growth, structure and knowledge economics (sector 3)

Ruud Okker, head of sector

Debby Lanser, programme leader *Productivity*

Bert Smid, programme leader *Macro analysis*

Dinand Webbink, programme leader *Education and public research*

Competition and regulation (sector 4)

Paul de Bijl, head of sector

Rob Aalbers, programme leader *Energy*

Paul Besseling, programme leader *Health care*

Pierre Koning, programme leader *Public and semi-public organisations*

Physical aspects (sector 5)

Carel Eijgenraam, acting head of sector and programme leader *Spatial economics and Water safety*

Gerbert Romijn, programme leader *Housing and Mobility and infrastructure*

Herman Stolwijk, programme leader *Agriculture, environment and nature*

International economics (sector 6)

Bas ter Weel, head of sector

Paul Koutstaal, programme leader *Climate change*

Arjan Lejour, programme leader *Globalisation*

Paul Veenendaal, programme leader *Europe*

CPB researchers (separate meetings)

Jan Bonenkamp, researcher *Labour market and welfare state*

Anja Deelen, researcher *Labour market and welfare state*

Roel van Elk, researcher *Growth, structure and knowledge economics*

Jasper de Jong, researcher *Short term analysis and fiscal affairs*

Viktoria Kocsis, researcher *Competition and regulation*

Marc van der Steeg, researcher *Growth, structure and knowledge economics*

Bas Straathof, researcher *International economics*

Karen van der Wiel, researcher *Competition and regulation*

Peter Zwaneveld, researcher *Physical aspects*

CPB staff concerned with internal affairs, human resources and communication

Jacqueline Timmerhuis, executive secretary / external communication

Claudia Presenti, human resource officer

Martin Mellens, employee representative in the Works council