



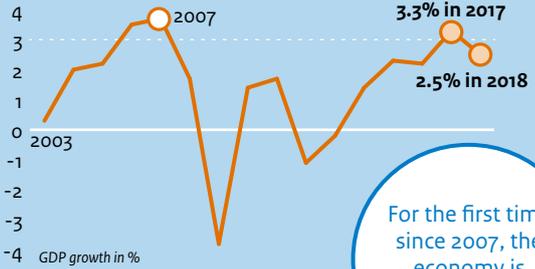
CPB Netherlands Bureau for Economic
Policy Analysis

Macro Economic outlook 2018

MEV 2018,
translation of
chapter 1

Prinsjesdag 2017: main figures CPB

The economy is flourishing



For the first time since 2007, the economy is growing by more than 3%



Strong increase in the export of goods



Higher business investments



Higher disposable household income

Government finances are healthy: budget surplus increasing further

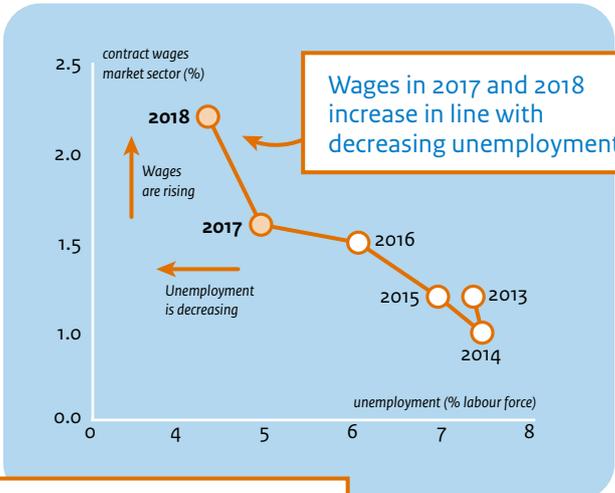
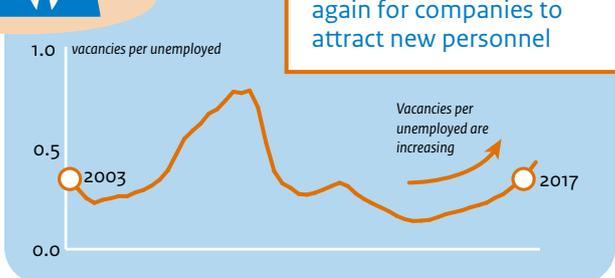


0.6% in 2017
0.8% in 2018

Tighter labour market

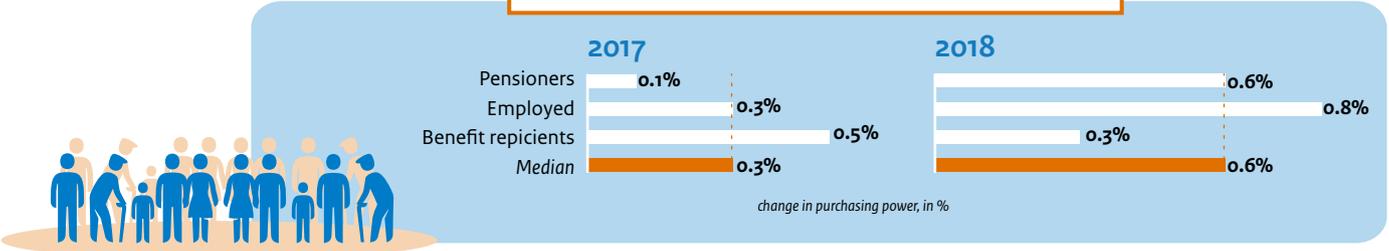


It is becoming more difficult again for companies to attract new personnel



Wages in 2017 and 2018 increase in line with decreasing unemployment

All groups will do better. Highest growth, in 2017, for benefit recipients; in 2018, for the unemployed



1 Summary and analysis

The Dutch economy is flourishing. Economic growth over the second quarter (1.5% quarter-on-quarter) was exceptional, and the labour market is showing rapid improvements. There are positive domestic dynamics between increasing employment, higher disposable income, increased spending and an improving housing market. Economic growth is projected at 3.3% for 2017 and 2.5% for 2018. This is much more favourable than elsewhere in Europe. Outside Europe, economic growth is increasing slightly, particularly in the emerging economies. This causes relevant world trade to increase by 4.3% in 2017 and 4.0% in 2018.

The Dutch labour market is tightening. In 2018, economic growth will lead to a fall in the unemployment rate to 4.3%. Price and wage increases will remain moderate. The tightening labour market will cause contract wages to increase, from 1.5% in 2016 to 2.2% in 2018. On an international level, wage and price developments are also projected to be moderate, and interest rates to be relatively low.

Purchasing power will improve, slightly, by 0.3% in 2017 and 0.6% in 2018. The budget surplus created last year will increase further, over the projected period, to 0.8% of GDP in 2018. This is due to the fact that continued economic growth leads to higher tax revenues, while there is no steep increase in government spending.

The analysis in this chapter concludes that the general perception about the Dutch education system being excellent for pupils who are lagging behind should be revised. The Netherlands currently ranks somewhere in the European middle, where this concerns the educational results of less-able pupils who have not completed an intermediate vocational education (mbo-2), higher general secondary (havo) or pre-university (vwo) education. Additional policy directed towards the poorly educated would be challenging, but may pay off.

1.1 Summary and introduction

Global economy

The global economy, currently, is doing well. Late last year, global production growth improved and it is expected to slightly increase even further. The same applies to the increase in world trade, which had experienced a downturn in 2016. Ten years after the onset of the financial crisis, the incurred wounds are slowly healing (although leaving some scars); in the most-developed economies, unemployment is more or less back at pre-crisis levels, government deficits are decreasing, and bank balances feature fewer bad loans, although European bank balances are improving relatively slowly.

Around the world, economic growth is increasing, from 3.2% in 2016 to 3.4% in 2017 and 3.6% in 2018. The acceleration is occurring in nearly all regions, but particularly in the emerging economies and the United States. Natural resource producers who were faced with heavy recessions, such as Russia and Brazil, once again are showing economic growth. In the eurozone, growth is increasing from 1.7% in 2016 to 2.0% in 2017 and 1.8% in 2018. This economic growth is also more across the board than before, both on a geographic level and in domestic spending categories. This demonstration of growth improving in the eurozone is supported by confidence indicators and decreasing unemployment.

Figure 1.1 World trade increasing (left); confidence indicators very positive for the eurozone (right)



Source: Eurostat and CPB ([link](#)).

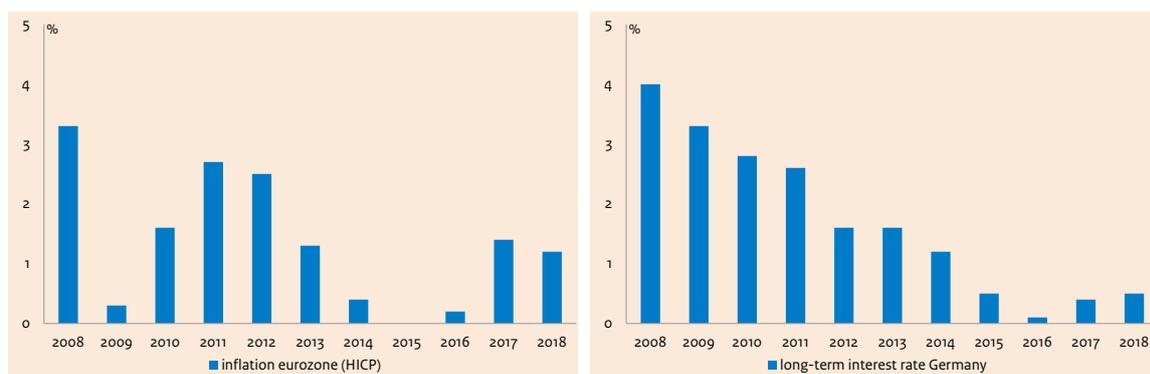
The improving world economy is also apparent from the growth in world trade, which is increasing from 2.1% in 2016 to 4.0% in both 2017 and 2018. The growth in relevant world trade is projected at 4.3% (2017) and 4.0% (2018).

There are, however, two comments to be made, in addition to the positive description above. The first is that economic growth is lower than the average over the two decades preceding the Great Recession. The second concerns the continued extreme accommodative monetary policy stance.

The projections are based on technical assumptions about exchange rates, interest rates and oil prices.¹ This results in an exchange rate of USD 1.14 per euro in 2018, against USD 1.11 per euro in 2016. The euro exchange rate is on the way up, due to improving European growth and because market parties have downwardly adjusted their expectations about US budgetary policy. Short- and long-term interest rates both remain low in the eurozone, with a slightly rising long-term interest rate. The oil price is projected to increase from USD 43.3 per barrel in 2016 to USD 49.5 in 2018.

Inflation in higher educated countries, over the last months, has gone up as well as down, as a result of a fluctuating oil price. Currently, inflation is clearly higher than in 2015, when it hardly reached more than zero, but is still below the central banks' objectives. In the eurozone, inflation increases from 0.2% in 2016 to 1.4% in 2017 and 1.2% in 2018. In 2016, inflation was still depressed by decreasing oil prices, whereas oil prices have a particularly upwards impact in 2017. The still limited wage increases, in 2018, will contribute to keeping inflation just below the ECB's medium-term objective of 2%. The appreciation of the euro also contributes to the modest price increase, via downward pressure on import prices.

Figure 1.2 Inflation in the eurozone higher, yet still moderate (left); capital market interest rates still historically low (right)



Source: Eurostat and CPB ([link](#)).

The improving world economy does not imply there are no downward risks. For example, there is uncertainty about the ECB's monetary policy. The still moderate inflation and the appreciation of the euro cause a reduction in the 2018 QE purchase programme to be less evident. At the same time, in a number of euro countries, the QE purchase programme is reaching the agreed maximum volume (see text box 'ECB: shop till you drop?' in Chapter 2 of the full report (in Dutch)). Another downward risk, for the eurozone, are the Italian banks — which continue to be in the danger zone, due to bad loans and weak profitability (see the text box 'Rifts in the banking union, in Chapter 2 of the full report (in Dutch)). Furthermore, Brexit also continues to pose a downward risk. Political division on this subject within the UK Cabinet may have a negative impact on the UK economy, which has already been weakened by the substantial depreciation of the pound, following the EU referendum. A

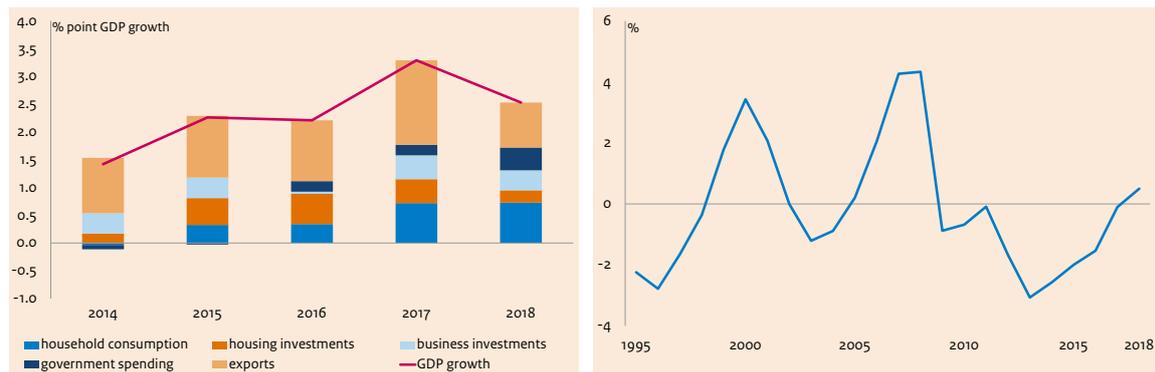
¹ See Lukkezen, J. et al. (2015), Assessment of the technical assumptions on exchange rates, oil prices and interest rates], CPB Background Document ([link](#)). End data for the technical assumptions for the Macro Economic Outlook was the state of affairs in week 28 (10–14 July).

little further down the line, the negotiations between the United Kingdom and the European Union may lead to tensions that would result in less favourable prospects. Outside Europe, the uncertainty around US monetary, budgetary and trade policies is also important; particularly, the rescission of certain trade agreements and the plans related to import duty and export subsidies could hurt the Dutch economy. There are substantial geo-political risks, especially due to the situation in North Korea, which could lead to a negative economic shock. In addition to these downward risks, the current economic upturn in Europe and the United States may be underestimated. Economic growth in the eurozone is increasing, but the level of growth is uncertain. There may be stronger catalysts, with higher spending levels, more investments and an increase in employment having a positive effect on each other.

The Dutch economy

The Dutch economy is flourishing. Economic growth is solid, in the first half of this year, with contributions from all spending categories. This development is more favourable than elsewhere in Europe, and has a positive impact on the labour market, albeit not yet on prices or wages, for which increases remain only moderate. GDP growth over the second quarter (1.5% quarter-on-quarter) was exceptional, and the highest since 1999. In June, unemployment dropped below 5% of the labour force; which, in 2014, was still 7.9%.

Figure 1.3 Growth across the board (left); output gap is closing (right)



Source: CBS and CPB ([link](#)).

The growth in the Dutch economy is projected to continue, both this year and in 2018. This is due to continuing positive developments abroad (particularly in the eurozone), low interest rates, and because the considerable, deficit-reducing government measures are a thing of the past. In addition, there are positive domestic dynamics between increasing employment, higher disposable incomes, higher spending levels and an improving housing market. The increasing domestic and foreign output has a positive impact on private-sector investments. The increase in employment has a positive impact on private consumption. The housing market, which is very active because of low interest rates and catch-up demand, is also stimulating the consumption of durable goods. Economic growth is projected at 3.3% for 2017 and 2.5% for 2018, which is well above the respective growth levels of 2.0% and 1.8% expected for the eurozone as a whole. The reduction in natural gas production, due to a

further lowering of the production ceiling at the Groningenveld, slightly dampens growth in the Netherlands, in both years.

Table 1.1 Main data for the Netherlands, 2013–2018

	2013	2014	2015	2016	2017	2018
mutations per year, in %						
International economy						
Relevant world trade volume of goods and services	2.7	4.4	3.8	3.6	4.3	4.0
Competitor prices (a)	-2.7	-0.5	7.9	-3.7	0.6	0.0
Oil price (in USD per barrel)	107.1	97.9	51.9	43.3	49.3	49.5
Euro exchange rate (USD per euro)	1.33	1.33	1.11	1.11	1.11	1.14
Long-term interest rate the Netherlands (in %)	2.0	1.5	0.7	0.3	0.6	0.8
Volume GDP and spending						
Gross Domestic Product (GDP, economic growth)	-0.2	1.4	2.3	2.2	3.3	2.5
Household consumption	-1.0	0.3	2.0	1.6	2.2	2.4
Public consumption	-0.1	0.3	-0.2	1.2	0.6	1.6
Investments (including stocks)	-3.9	3.2	11.2	3.1	6.3	4.8
Exportation of goods and services	2.1	4.5	6.5	4.3	4.9	4.5
Importation of goods and services	1.0	4.2	8.4	4.1	4.5	5.1
Prices, wages and purchasing power						
Price level Gross Domestic Product	1.4	0.1	0.8	0.6	1.1	1.6
Export prices goods and services, excluding energy	0.1	-0.8	1.5	-0.9	1.0	0.3
Import price levels	-1.9	-2.7	-5.4	-4.4	3.6	-0.5
Inflation, Harmonised Index of Consumer Prices (HICP)	2.6	0.3	0.2	0.1	1.3	1.3
Wage rate, market sector (per hour)	1.9	1.0	-0.2	0.6	2.2	3.2
Contract wages market sector	1.2	1.0	1.2	1.5	1.6	2.2
Purchasing power, static, median all households	-1.4	1.2	1.0	2.7	0.3	0.6
Labour market						
Labour force	0.8	-0.4	0.4	0.4	0.8	1.1
Working population	-0.8	-0.6	1.0	1.3	2.0	1.7
Unemployed labour force (x thousand persons)	647	660	614	538	440	390
Unemployed labour force (in % of labour force)	7.3	7.4	6.9	6.0	4.9	4.3
Employment (in hours)	-0.9	0.7	0.6	2.0	2.0	1.6
Other						
Labour income share (in %) (b)	73.8	74.1	72.2	72.9	72.5	73.0
Labour productivity, market sector (per hour)	1.0	0.9	1.5	0.4	1.5	1.0
Individual saving share (in % of disposable income) (c)	-0.7	0.3	-0.4	0.3	0.3	0.5
Balance current accounts (in % of GDP)	10.2	8.9	8.3	8.7	8.8	8.5
level in % of GDP						
Public sector						
EMU balance	-2.4	-2.3	-2.1	0.4	0.6	0.8
EMU debt (ultimo year)	67.8	68.0	64.6	61.8	57.2	53.7
Public financial burden	36.5	37.5	37.3	38.7	38.8	38.9
Gross public spending	46.9	46.4	45.2	43.8	43.0	42.5
<p>a) Goods and services, excluding resources and fuels.</p> <p>(b) From the MEV 2018 onwards, CPB will be using a new method of calculating labour income share (AIQ). This new calculation method more effectively takes into account the labour income of the self-employed, and therefore is more in keeping with current economic reality. A joint publication by CBS, CPB and DNB provides more information on this subject.</p> <p>(c) Level; the disposable household income includes public saving. The individual saving share will be 0.6 percentage points lower in 2017 and 0.2 percentage points lower in 2018, due to the incorporation of personal pension fund management (Pensioen in Eigen Beheer), see the text box in Chapter 1 of the MEV 2017.</p>						

The substantial growth, in this year and the next, means we are leaving the period of economic recovery behind us, and it closes the output gap in the projection period. There is the possibility of Dutch growth being hampered, if the international risks as described above would become a reality. The Dutch economy is following the upward curve of the economic wave, but has not yet reached an economic boom. How long this upward economic development will last is uncertain.

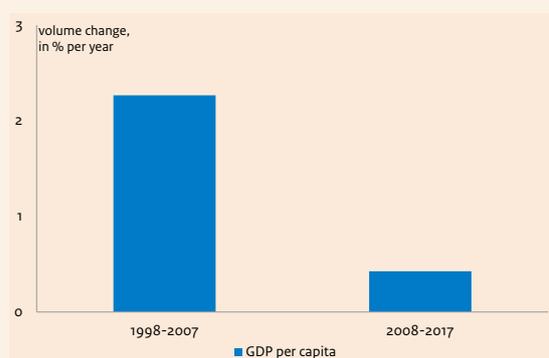
Green signs against a grey background

Economically, all the lights are green for the Dutch economy. For example, actual growth is high, and higher than potential growth, which closes the output gap in the projection period. Growth is not only based on exports, but also on domestic spending across the board. Unemployment has decreased substantially and is currently near the equilibrium unemployment.

The favourable economic situation, however, is not in line with 'grey' long-term development. GDP per capita, over the last decade, has increased in volume by 0.4% per year, against 2.3% per year in the preceding 10 years. This dramatic weakening in the Netherlands is not unique (a).

Supply and demand factors both played a role in this weakening of growth (b). Population ageing has reduced the growth in the potential labour force. In addition, the strong increase in female participation in the labour process has also decreased. Furthermore, the structural labour productivity increase has gone down (c). Moreover, the financial crisis, which began 10 years ago, led to permanent loss of income (d). From the demand perspective, lower world trade growth has hampered Dutch economic growth. Although budgetary policy enables long-term sustainability of the budget — the sustainability gap has been closed — this was accompanied by spending cuts and increases in financial burden, thus having a negative impact on the demand side (e).

Increase in the Dutch GDP volume per capita, 1998–2017



[vertaling figuur: volumemutatie % per jaar = volume change, in % per year

1998-2007 = 1998–2007

2008-2017 = 2008–2017

bbp per hoofd van de bevolking = GDP per capita]

Source: CBS, CPB ([link](#)).

(a) Adler, G., et al. (2017), Gone with the wind: global productivity slowdown, IMF Discussion Note ([link](#)).

(b) The weakening is slightly overestimated, because the 1998–2007 period ended with a sizeable positive output gap, while in 2017 the gap nearly closed.

(c) Analysis (Section 1.2) in CPB (2017), Central Economic Plan 2017 ([link](#)). And see CPB (2017), Productivity Slowdown - Evidence for the Netherlands, CPB Communication ([link](#)).

(d) Luginbuhl, R. and A. Elbourne (2016), Accounting for business cycles reduces the estimated losses from systematic banking crisis, CPB Discussion Paper 339 ([link](#)).

(e) Suyker, W. (2016), Opties voor begrotingsbeleid [options for budgetary policy (in Dutch)], CPB Policy Brief 2016–02 ([link](#)); Es, F. van, J. Lukkezen and I. van Tilburg (2016), De impact van de overheid op de economie tijdens de grote recessie [the government impact on the economy during the Great Recession (in Dutch)], CPB Background Document ([link](#)).

Private consumption delivers an important contribution to economic growth, with a growth rate of 2.2% this year and 2.4% in 2018. The reason for this is that more employment and higher real wages lead to a substantial increase in real disposable income. This causes the saving share to increase, slightly. High consumer confidence — over the last 30 years, consumers have not been this positive about the economic climate — also points to continued positive development in private consumption.

After three years of double digits, **housing investments** will increase by 6.1%, next year, which is still a high growth percentage. This brings housing investments 82% above the low point of 2013. Growth is tapering off because the catch-up demand has largely been filled, and because labour shortages have emerged in parts of the construction sector. The rise in house prices is continuing, due to the tight housing market, which is the result of the economic upturn and low interest rates. During the second quarter of 2017, nominal house prices were 8% higher than a year before and just below the highest point of 2008 (see Figure 2.7). Corrected for general price increases, house prices are still 19% below peak prices.

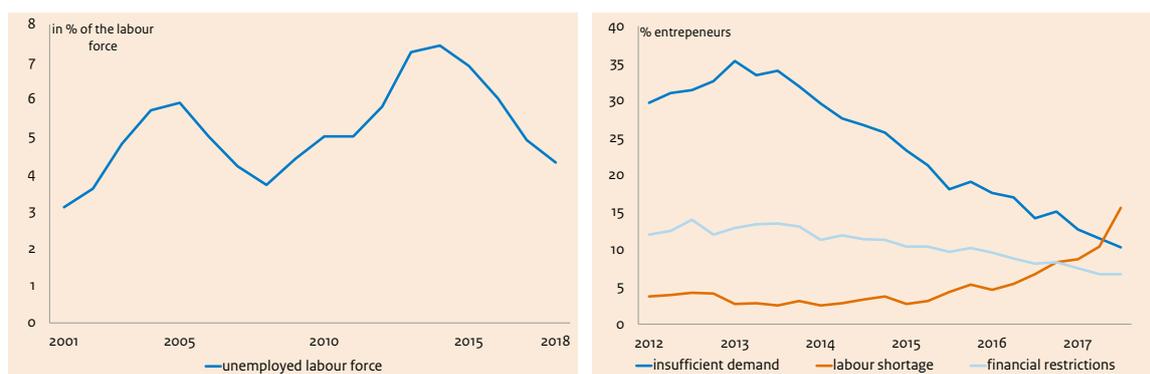
This year and next year, **business investments** are projected to increase by more than average, with a respective 6% and 5%. Investment levels are rising because of the increasing domestic and foreign output, relatively high capacity utilisation, substantial profits and low capital costs. Because of the distinct recovery since 2013, business investments in 2018 will be 18% above the record level of before the economic crisis.

With growth figures of 4.9% in 2017 and 4.5% in 2018, **exports** remain an important stimulus for economic growth. Re-exportation again shows the largest increase, while also domestically produced exports increase more strongly than relevant world trade. The last can partly be attributed to the delayed impact from the clear improvement in competitive pricing position in 2015, but is nevertheless notable seeing the slight decline in this position thereafter. With growth percentages of 4.5% in 2017 and 5.1% in 2018, imports in 2018 are projected to increase just a little more rapidly than exports. Strong import growth is mostly due to above average increases in domestic spending and a high level of re-exportation. Here, import penetration increases because the appreciation of the euro is dampening import prices. The current account of the balance of payments in 2018 is projected to be 8.5% of GDP; a slight decrease from 2016. This is due to a decrease in the energy balance, on the one hand (lower natural gas exports combined with more energy being imported), and to contributions to the EU, on the other (which were lower in 2016 following a recalculation and will be back at the old level in 2018).

Developments on the **labour market** are simply positive, with further improvements ahead — accompanied by shortages in certain sectors. Last year, there was already a rapid increase in employment among the working population, as well as an increase in the number of hours worked per employed person, a substantial decrease in unemployment and a clear increase in the number of vacancies. These positive conditions continued into the first half of this year and are projected to persist throughout the year and in 2018. Employment in hours is projected to increase by 2.0% and 1.6%, in 2017 and 2018, respectively. The growth in

employment in 2017 is the greatest since 2008. Job growth particularly occurs at businesses outside the health care sector. For 2018, employment in the health care sector is projected to also increase substantially, by 2.6%, especially due to the quality framework for care homes. Government employment is close to stable. Around 1% annual growth in labour supply thus results in a decrease in unemployment, from 6.0% of the labour force in 2016 to 4.9% in 2017 and 4.3% in 2018 — the lowest percentage in 10 years. Broader definitions of labour potential show comparable decreases since 2014.

Figure 1.4 Unemployment decreasing rapidly (left); more companies experience labour shortages (right) (a)



(a) Right: percentage of companies that indicate to be hindered by insufficient demand, labour shortages, and financial restrictions. Source: CBS, CPB ([link](#)).

This results in an increasingly tighter labour market, and bottlenecks for certain sectors. The negotiation power of the employed, compared to the employers, increases under a tight labour market. This is expected to lead to improvements in labour conditions for employees in the form of higher wages (see the text box ‘Eind van zwakke loonontwikkeling komt in zicht’ [the end of weak wage development is in sight] in Chapter 2 of the full report (in Dutch)), an increase in permanent contracts next to flexible contracts, and higher tariffs for the self-employed. For now, **wage increases** remain modest, with 1.6% increase in contract wages in 2017. This increase will rise to 2.2% in 2018, with incidental wage rises increasing up to 1.1 percentage points, because a tighter labour market also increases the chances of a bonus, higher pay grade and favourable job change.

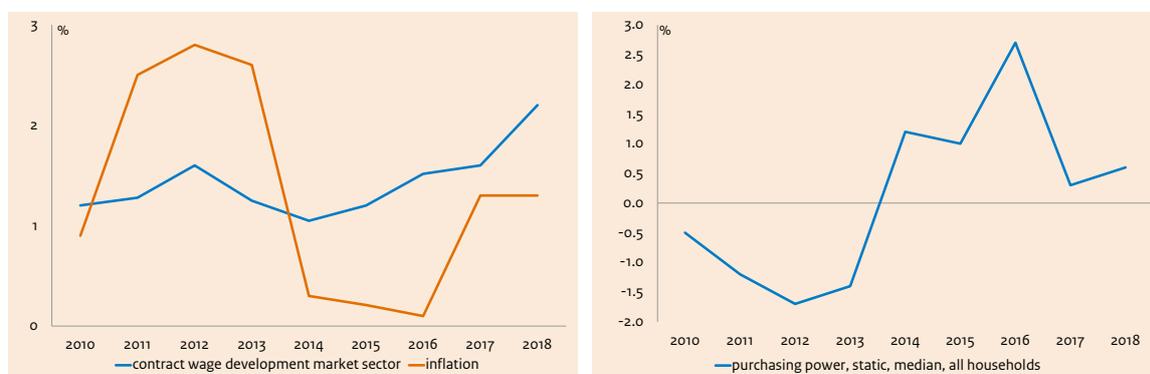
This year, the **labour income share** is historically low, with 72.5%. It is expected to increase, slightly, next year, because real wages will increase more compared to labour productivity. In order to improve the economic interpretation, the calculation method for the labour income share has been adjusted. The text box in Chapter 2 of the full report (‘Berekening arbeidsinkomensquote aangepast’, in Dutch) provides more details on this subject.

In this year and the next, **inflation** will be 1.3%, higher than it was last year, but still modest from a historical perspective, and below the ECB’s long-term objective for the eurozone of just below 2%. Rising import prices and slightly higher labour costs, this year, will cause prices to go up. For next year, import prices are projected not to increase, but this will be

compensated by more rapidly increasing labour costs, taxes and fixed costs. For the Netherlands, inflation remains approximately in line with that of the eurozone.

For 2017 and 2018, median static **purchasing power** is projected to improve by a respective 0.3% and 0.6%, under real contract wage increases in the market sector of 0.2% and 0.8%, respectively. Median purchasing power increases the most for the employed, by 0.3% in 2017 and 0.8% in 2018. For benefit recipients, it will increase by 0.5% in 2017 and 0.3% in 2018. On average, pensioners, for whom pensions are not or only marginally indexed, will see an increase of 0.1% in 2017 and 0.6% in 2018. The difference between economic growth and increase in static purchasing power is striking, but explainable: the increase in the number of employment hours is expressed in economic growth, but not in static purchasing power. The same is true for incidental wage increases (see the text box ‘Van economische groei naar koopkrachtstijging’ [from economic growth to increase in purchasing power] in Chapter 3 of the full report (in Dutch)).

Figure 1.5 Wage and price developments currently modest (left); limited increase in purchasing power (right)



Source: CBS, CPB ([link](#)).

Over the projected period, the **budgeting balance** remains positive. The surplus even increases, from 0.4% of GDP in 2016 to 0.6% in 2017 and 0.8% in 2018. Surpluses are larger than those over the 2006–2008 period (the most recent three-year period with surpluses) and larger than elsewhere in the eurozone. Under unchanged policy over the 2018–2021 period, the sustainability surplus will be 0.2% of GDP (1 billion euros).² The Dutch surplus will increase, in both 2017 and 2018, due to continued economic growth, which will increase tax revenues and reduce expenditures on unemployment benefits. In addition, interest rate payments, expressed in percentage of GDP, will decrease rapidly. Moreover, on the basis of the lack of policies in the current Budget Memorandum by the outgoing Dutch Cabinet, the increase in other government expenditure will lag far behind GDP growth, and, in both 2017 and 2018, there will be a policy-induced increase in the tax burden. Lower natural-gas revenues caused by lower production levels will slightly limit the increase in the surplus. In 2017 and 2018, the **structural budget balance**, as stated in the budgetary rules agreed to on European level, will be above the medium-term objective (MTO) of -0.5% of GDP.

² CPB, 2017, Actualisatie Middellangetermijnverkenning (MLT) 2018-2021 [update medium-term outlook 2018–2021 (in Dutch)], CPB Communication, August ([link](#)).

For this year, the **government debt** is projected to go below the European agreed debt ceiling of 60% of GDP. Since 2011, the debt ratio was above this ceiling, with a peak of 68% in 2014. For 2018, the debt ratio is projected to reduce further, to 54% of GDP, due to the budget surplus, certain financial transactions such as the privatisation of ABN AMRO, and the denominator effect resulting from the GDP increase.

1.2 Analysis: untapped potential

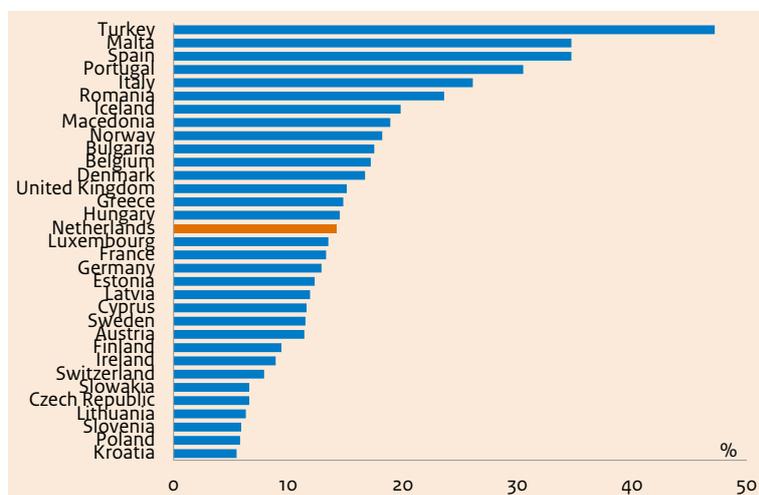
The Netherlands highly values the participation of all of its citizens. Therefore, you would expect that all people, irrespective of education level, would flourish and participate, each to his or her own ability. However, the figures paint a different picture. The share of the population that ultimately belongs to the group of poorly educated, will be less well-off, according to the statistics, irrespective of whether this concerns happiness, health or income.³

Point of consideration in education

How does the Dutch education process compare to that of other countries? Is the Dutch education system able to also help the people who require additional support in finishing school?

In the first place, 14% of people in the Netherlands between 25 and 34 years of age are not in possession of a so-called basic education (*startkwalificatie*)⁴ and are, therefore, considered to be poorly educated. With this percentage, the Netherlands ranks somewhere in the European middle (Figure 1.6).

Figure 1.6 Percentage of the poorly educated population, aged 25 to 34, in 2016



Source: Eurostat⁵

³ Source: CBS Statline ([link](#)).

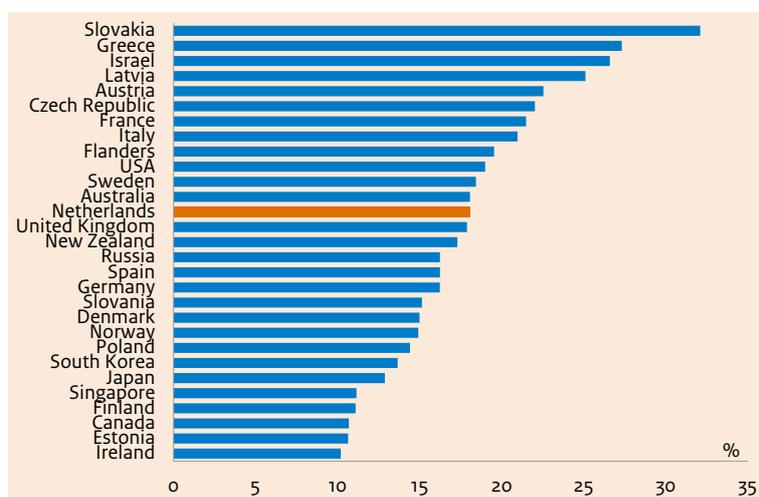
⁴ *Startkwalificatie* = a completed intermediate vocational education (mbo-2), higher general secondary (havo) or pre-university (vwo) education

⁵ Definition of poorly educated people: those without a basic education (*startkwalificatie*), i.e. without a completed intermediate vocational education (mbo-2), higher general secondary (havo) or pre-university (vwo) education.

The international position is remarkable, particularly for secondary education, as is shown in, for example, recent mathematical results in primary and secondary schools.⁶ The least-performing Dutch pupils, at the age of 9, still belong to the best in the world, whereas at 15 years old, they are suddenly in 10th place, out of 25 OECD countries. Even more remarkable is the fact that the exact opposite can be seen for the *best*-performing Dutch pupils. They score far better, from an international perspective, when they are 15 than at the age of 9 (see the infographic ‘Untapped potential’). The discrepancy between the relative scores in primary and secondary schools has increased, over the last years. In 2006 and 2007, this was only the case to a limited degree.⁷

The latest PISA figures, furthermore, show that 18% of Dutch 15-year-olds belong to the category of poorly educated (illiterates)⁸ — which, again, places the Netherlands in middle position, this time among OECD countries (Figure 1.7).

Figure 1.7 Percentage of poorly educated among 15-year-olds, in 2015



Source: PISA

The current percentage of pupils who leave school without having obtained the basic education qualification (startkwalificatie) is much lower than in the past; the 14% in the 25–34 age group mentioned above, therefore, is expected to come down in the future. Nevertheless, each year, 8% of pupils between 18 and 24 years old leave school without this basic level of education.⁹ This percentage also puts the Netherlands in a middle position (see the infographic ‘Untapped potential’).

⁶ Source: OECD (2017), PISA 2015 results ([link](#)) and TIMSS & PIRLS International Study Center, TIMSS, 2015 ([link](#)).

⁷ Incidentally, the average results for all Dutch pupils, although still high, have decreased slightly over the last decade. This applies to arithmetic and natural sciences at the age of 9, as well as to mathematics and natural sciences at the age of 15.

⁸ The OECD definition of ‘literacy’ reads: ‘the ability to understand and employ printed information in daily activities at home, at work and in the community – to achieve one’s goals, and to develop one’s knowledge and potential.’

⁹ Source: Eurostat (2016). In 2016, the Netherlands, thus, achieved the target it had set for itself in 2010 — that of the percentage of dropouts being below 8%.

Untapped potential

Analysis to the Macro Economic Outlook 2018



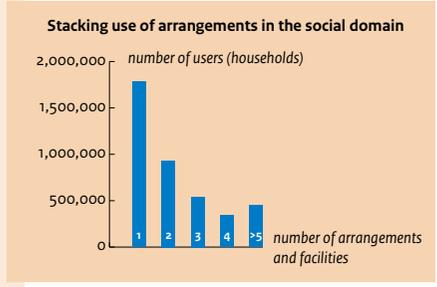
The education system not always does them justice

A share of them are intellectually challenged; the Netherlands has 1.4 million intellectually challenged people

Aandachtspunten voor beleid

Knowledge from the behavioural sciences may be applied to influence behaviour through policy

The multiplicity of regulations and supporting parties gets in the way of effective support



Income policy may discourage labour participation

Primary education

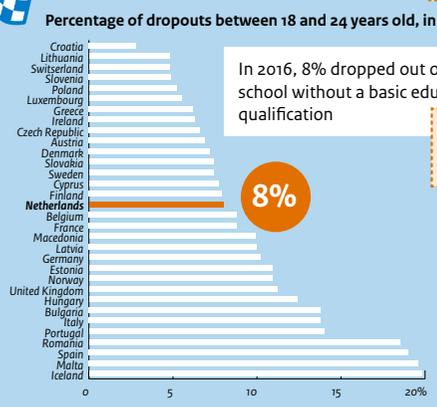
The 10% worst-performing pupils in primary education belong to the top 3 of best-performing countries

Secondary education

This advantage disappears in secondary education; here, the 10% worst-performing pupils drop to the 10th position (of 25 OECD countries)

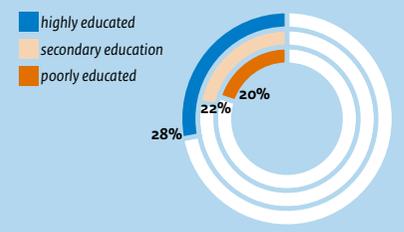
Dropouts

In 2016, 8% dropped out of school without a basic education qualification



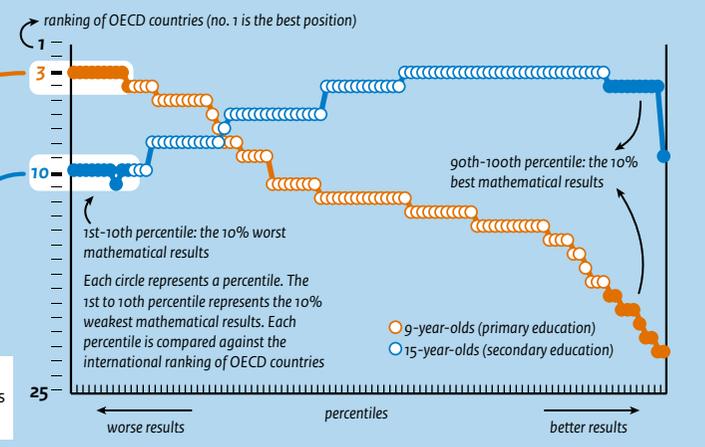
Lifelong learning

Percentage of working hours in which people learn from performing tasks, per education level



85% of adult learning takes place at work, while performing tasks. Poorly educated spend the least of their working hours on learning

Position of the Netherlands in international ranking according to mathematical ability (2015)



The Netherlands is in middle position, where educational results are concerned. This icon indicates where the Netherlands is observed to be in a middle position

Sources
Eurostat
Each adaptation is based on PISA (OECD) and TIMSS (International Association for the Evaluation of Educational Achievement).
ROA, 2017. *Werkenden in leerstand*, ROA Factsheet.
Stapelingsmonitor [stacking monitor] (CBS), compiled at the request of KING; contains 25 arrangements varying from SZ arrangements to care.

After initial education, the knowledge gap between poorly and higher educated people continues to grow. Research has shown that, compared to higher educated people, the poorly educated less often follow additional learning courses (Table 1.2), although not more so in the Netherlands than in other countries.¹⁰ Poorly educated adults less often participate in courses and training and are less often involved in self-learning. In general, they also acquire less new knowledge and fewer new skills through activities both at and outside of their job.¹¹

Table 1.2 Difference in participation in post-initial learning over the last two years, 2017 (source: ROA)¹²

	Poorly educated	Secondary education	Highly educated
Formal learning			
Participation in courses	39%	53%	63%
Participation in self-learning	33%	40%	64%
Informal learning			
Percentage of working hours in which people learn from performing tasks	20%	22%	28%
Percentage of time spent on volunteer work during which people learn from performing tasks	15%	15%	19%
Percentage of time spent on caring for family members during which people learn from performing tasks	13%	8%	6%
Percentage of time spent with children during which people learn from performing tasks	13%	18%	19%

These findings show that the Dutch education system is not in top position, as far as the poorly educated are concerned. This immediately points to some areas for improvement.

Seeing the opposing trends for pupils in secondary education who find it easy to learn and those who do not, it seems logical to increase the focus in secondary education more on those who are behind in learning. An effective approach, for example, could be to support the weaker pupils with additional coaching and summer schools.¹³ Further investments could also be made in teachers, the most vital part of educational quality.¹⁴ The Dutch Inspectorate of Education, for example, indicates that by far not all teachers are equally able to differentiate between the various types of pupils.¹⁵ Another method for improving the position of poorly educated adults could be to stimulate them to be involved in active learning, although it has proven difficult to formulate effective policy on this subject.¹⁶

¹⁰ On average, the Netherlands scores relatively high on the subject of lifelong learning. In 2016, it ranked 8th among 33 European countries, with respect to annual participation in a lifelong learning activity among all 25–65-year-olds (source: Eurostat). Furthermore, for example, see CBS 'Een leven lang leren in Nederland: Een overzicht, Socio-economische trends 2016' [lifelong learning in the Netherlands. An overview, socio-economic trends 2016].

¹¹ ROA (2017), *Werkenden in Leerstand* [learning employees], ROA Factsheet ([link](#)).

¹² The higher educated are also more involved in voluntary work (source: CBS) and in caring for family members (source: SCP).

¹³ CPB (2016), *Kansrijk onderwijsbeleid* [promising education policy] ([link](#)).

¹⁴ CPB (2016), *Kansrijk onderwijsbeleid* [promising education policy] ([link](#)).

¹⁵ Inspectorate of Education, *De Staat van het Onderwijs 2015/2016* [the state of affairs in education 2015–2016] ([link](#)).

¹⁶ See the overview of various reports on lifelong learning, such as SER (2017), *Leren en ontwikkelen tijdens de loopbaan: een advies over post-initieel leren* ([link](#)); Learning and development during career, English summary ([link](#)).

Points of consideration in support

As mentioned above, in 2016, 14% of people between the ages of 25 and 35 are poorly educated. Excellent initial and post-initial education may be able to further decrease this percentage. However, there will always be a certain number of poorly educated. For example, the SCP estimates that the Netherlands counts around 1.4 million poorly educated.¹⁷ This is about 8% of the population. They not only lack in learning ability, but also experience difficulties in social interaction. In addition, this group often is also less financially literate.

A society that highly values solidarity wishes to support these people through effective policy — for example, in neighbourhoods, in health care, and on the labour market. This, however, is not an easy feat; there are several complicating factors.

In the first place, human behaviour is not only rational and well-considered.¹⁸ This makes it more difficult to influence behaviour, which is something that is particularly important for the group of poorly educated. For example, their relatively poor health can partly be attributed to lifestyle. People in this group, more often, are found to smoke more, drink more, eat less healthily and exercise less, compared to highly educated people. Providing them with information on this subject appears to have little effect. Regulations and financial incentives are more effective ways to really influence behaviour.¹⁹

Influencing behaviour can also be achieved in another way. Not all people are able to find their way in the complicated government bureaucracy, or manage to find the time and energy to even begin to do so. Particularly people who are confronted with stressful changes, such as a death, divorce, or job loss, are shown to find this more difficult.²⁰ As a result, people miss out on entitlements, such as allowances or subsidies. Errors made on application forms, paradoxically enough, may even increase or create debts; in such instances, allowances or subsidies can be allocated that must be paid back, later on. Logical defaults — forms that are already partly filled out and quick check lists increase the chances of reaching those that are legally entitled.²¹

By applying knowledge from behavioural sciences, more effective policy could be developed. However, there are dilemmas with respect to freedom of choice and paternalism that are related both to ‘soft’ methods (e.g. nudging) and ‘hard’ methods (regulation).

In the second place, the multiplicity of parties supporting problem families also appears confusing.²² We know that problems often do not emerge in isolation. For example, over 5%

¹⁷ Here, people are meant with an IQ of between 70 and 85. According to the SCP, the Netherlands counts around 140,000 intellectually challenged people – i.e. those with an IQ below 70 (less than 1% of the population). For example, see SCP (2014), Zorg beter begrepen [more understanding in health care] ([link](#)).

¹⁸ For example, see studies by behavioural scientists, such as Daniel Kahneman and Richard Thaler.

¹⁹ Intedepartmental working group IBO gezonde leefstijl (2016), IBO gezonde leefstijl [healthy lifestyle] ([link](#)).

²⁰ WRR (2017), Weten is nog geen Doen, een realistisch beeld op zelfredzaamheid [knowing is not doing] ([link](#)).

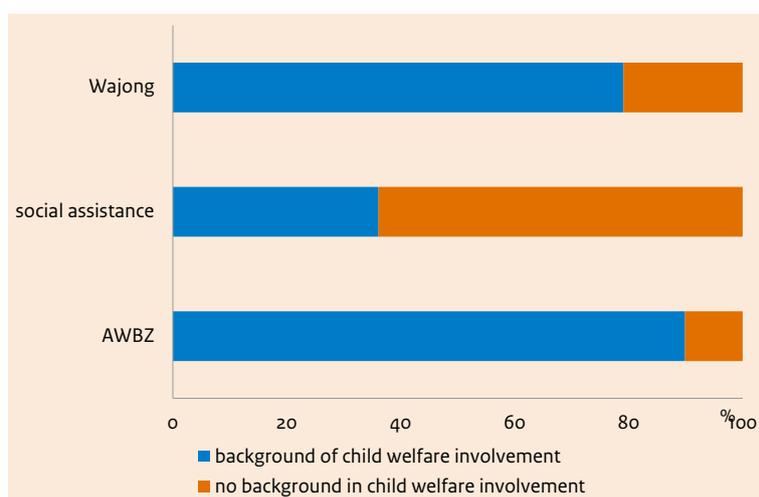
²¹ Duflo, E. (2017), The economist as plumber, essay based on Ely lecture at American Economic Association ([link](#)), providing a salient example of how water pipes, initially, never reached a Moroccan residential house, because the construction of the needed connection to the main water supply system was beyond the abilities of the target group.

²² Zie onder andere CPB, 2016, Op eigen benen? Samenhang van jeugdzorg met het gebruik van WMO-zorg en inkomensondersteuning vanaf het achttiende levensjaar, CPB Notitie ([link](#)).

of Dutch families make use of five or more facilities or arrangements within the social domain (see the infographic on ‘Untapped potential’).²³ Moreover, the involvement of child welfare appears a strong indication for the use of, for example, social assistance, Wajong (Disablement Assistance Act for Handicapped Young Persons) or AWBZ (Exceptional Medical Expenses Act), later on (Figure 1.8). Where problems are stacking up, many parties are involved, and this gets in the way of effective support.

The transfer from central to local authorities in the social domain, meanwhile, has caused more tasks to be allocated to a single party — the municipality — but this of course has not removed all lines of separation. Municipalities and national government, in the future, could work towards further decompartmentalisation and coherence. At the same time, this also creates new issues. A coherent approach, on municipal level, by neighbourhood teams requires made-to-measure solutions, but also creates more differences between citizens and issues of privacy.

Figure 1.8 Child welfare predictor for future use of benefits, allowances and subsidies at an older age (2013)



Source: CPB²⁴

A third point of attention concerns labour participation. Sometimes, income policy discourages it. People, for example, lose certain subsidies when their income increases. This poses a barrier to paid employment, for some of the poorly educated. Labour market policy may also, inadvertently, cause certain barriers. For example, minimum wage level protects employees against the market power of employers and offers a fair income. However, when people are likely to be less productive than the minimum wage level, they will not be hired. Certain poorly educated people miss out, in this way.

²³ Bron: De stapelingsmonitor van het CBS, verzameld in opdracht van KING, kent 25 regelingen, variërend van SZ-regelingen tot zorg.

²⁴ Uit: CPB, 2016, Op eigen benen? Samenhang van jeugdzorg met het gebruik van WMO-zorg en inkomensondersteuning vanaf het achttiende levensjaar, CPB Notitie ([link](#)).

For all these cases, solutions could certainly be found: wage cost subsidies, a low-income advantage, more sheltered employment (or other public employment) and/or labour tax credits. However, such solutions do cause the system to be more complicated and/or less transparent for employers.

Conclusion

Where this concerns the educational results of pupils who are less able to learn, the Netherlands does not appear to be an international frontrunner. And what starts as a difference at school, appears to have major consequences for people later in life. The education system could make improvements itself, but not everything can be solved in that way; part of the population will remain poorly educated. For them, support will often be required in other areas.

Developing effective policy for the poorly educated is a challenge. Measures intended to support citizens and employees may be less effective, yield unintended results or pose new dilemmas for the poorly educated.

Off-the-shelf solutions are not really available. However, other parties, including the government, may also learn to do better.



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