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The case of the Netherlands

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..... Chapter 2

*The Case of the
Netherlands*

Introduction by the editors

The superfluous use of mathematics, the relative importance of theory *vis-à-vis* empiricism as well as the education and training of economic doctorates have been critically discussed in leading journals such as the *Journal of Economic Literature*, the *Journal of Economic Perspectives* and the *European Economic Review*. Many economists have expressed their concern with the present situation and we are now all quite familiar with discussions about the merits of the two archetypes of economics: Theory and Policy. Theory appears to have become detached from the real world and consequently from policy. This distance between policy and science is something that has grown over time. It is not a natural division, however: economics was born in the policy debate. Many top economists have been policy-makers. Ricardo (who is often seen as the prototype of the neoclassical economist) actually may have served as a role model for leading European economists such as De Grauwe or Van der Ploeg who are now in parliament.

... 2.1 ...

A strong impact of economics on policy?

In their 1993 article on American and European economics and economists, Frey and Eichenberger discussed the Netherlands as an example of a European country where the influence of former economics professors on policy is very substantial:

In December 1991, the following professors of economics were in the Cabinet of the Netherlands alone: Jacob E. Andriessen (University of Amsterdam) as Minister of Economic Affairs, Jo Ritzen (University of Rotterdam) as Minister of Education and Science and Jan P. Pronk (University of Amsterdam) as Minister for Development and Cooperation. Moreover, Wim Duisenberg (University of Amsterdam) was president of the Dutch Central Bank (Frey and Eichenberger, 1993, p. 187).

At the end of the Cabinet period De Vries (the Minister of Social Affairs and Employment) became professor at the Research Center for Economic Policy at Erasmus University Rotterdam while Lubbers (Prime Minister) became professor at the Center of Economic Research at Tilburg University. Andriessen retired and Zalm (a former director of the CPB and professor at the Vrije Universiteit at Amsterdam) became the Minister of Finance in the new Cabinet keeping the academic content at the established level.

Now does this mean that the Netherlands is developing the role model for the European way of bridging the gap between science and policy, as Frey suggested during the conference Economic Science: Art or Asset? Or is the Netherlands simply lagging behind and is the American approach creeping in? The result of Van Dalen and Klamer's (1997) review of Dutch economists suggests the latter.

... 2.2 ...

A strong position for academics?

A recent investigation by the American *Carnegie foundation for the advancement of teaching* finds that the academic community in the Netherlands favours research over education (Boyer et al. 1994). Economic scientists have expressed a strong preference for theoretical ('fundamental') research instead of applied research. Van Sinderen (1992), Van der Ploeg (1992) and Geelhoed (1997) point at the widening gap between, on the one hand, research that is useful for society and for education and, on the other hand, high tech theory that has mainly an academic payoff.

A committee investigating academic education and research in the Netherlands on the request of the Minister of Education, Culture and Science issued its report in 1996. The committee argued that the communication between applied and fundamental research should be improved. As far as education is concerned, the report maintained that the first stage of the academic education in economics should become less specialized and more directed to communication skills. The distinction between economics and econometrics should also be removed in early stages. The committee appreciated recent improvement in Ph.D. education in the Netherlands. Nevertheless, it felt that Ph.D. students should be encouraged to focus more on applied and policy relevant problems, for example by writing part of their dissertation in policy institutes. As regards fundamental research, the report proposed various ways to enhance communication between fundamental and applied researchers, for example changes in the way research money is disbursed and scientific quality is measured.

... 2.3 ...

Social costs

A potentially important social cost of the present division between theory and practice is a lack of understanding of the institutional context and of the characteristics of the national economy. The aridity of economic science means that there is a permanent and increasing need for translation of its findings and for assessments of its relevance. In the past this task used to be performed by university staff. However, since most economic professors want to publish in the leading American journals, empirical assessments and translation with a keen eye on the local (or European) context no longer seem to pay in academic circles (Frey and Eichenberger 1997).

This neglect of reality and the downplaying of real-world demands is even more problematic if one considers the position of education *vis-à-vis* research. Indeed, whereas 90 per cent of our students does not want to become a scientist, graduate education still appears to aim at providing the foundation for a scientific career. Typically Dutch economics students are trained to solve the problems of the US economy. The Netherlands is an overtaxed economy with low inflation, a current account which is persistently in surplus and a dramatically high share of long-term unemployed. Graduate teaching in the Netherlands, however, focuses on the US problems of high inflation, a current account deficit and strong fluctuations in unemployment – around a much lower trend level than in Europe (Geelhoed 1997). According to the 1996–

1997 course programmes of the University of Amsterdam, Groningen University, Maastricht University, Tilburg University and the Vrije Universiteit Amsterdam, students will have to read N.G. Mankiw's *Macroeconomics* as their major text in their first year. At Erasmus University Rotterdam the main text is R.J. Gordon's *Macroeconomics*. So Dutch economic students start their first year with an introductory textbook that puts the American economic issues first. Many of these students are motivated by the problems of Dutch society. They either have to become disappointed or to adjust and consider these problems of minor importance while mastering their subject field.

... 2.4 ...

Plan of the book

This book analyses this situation. It contains papers that were presented at three workshops during the conference 'Economic Science: An Art or an Asset?' that was held in January 1996 in The Hague and it reports on the resulting discussion among academics and policy-makers. The conference was organized by the Research Centre for Economic Policy (OCFEB at Erasmus University) and Center for Economic Research (CentER at Tilburg University) in close collaboration with the Economic Policy Directorate (AEP) of the Netherlands Ministry of Economic Affairs. Both the editors and the contributors to this volume are either economic practitioners, disbelievers or pure scientists.

The conference aimed at improving the communication between scientists and policy-makers. Our goal was two-fold. We wanted to get a better understanding of the actual relationship between economic science and policy in the Netherlands and to stimulate discussion between policy-makers and scientists (perhaps even increasing mutual understanding). An efficient way of establishing this goal seemed to be bringing together eminent international scientists and high level social servants in a setting that allowed them to discuss both their specific and their mutual interests.

We selected three topics for the workshops. They were held during the first day of the conference:

- environmental policy;
- competition policy and deregulation; and
- labour market and social security policies.

We selected these cases which were on the top of the policy agenda in the mid-1990s (and still are), because they differ so much with respect to both

the availability of scientific research (i.e. the reaction of academics to society's problems) and the impact of research (if available) on policy. The discussion on these topics makes up for the larger part of this book. We have devoted three individual parts to each topic.

Environmental economics

Environmental economics is flourishing in the Netherlands with important publications in leading theoretical journals, much applied research (amongst others by the CPB) and a strong emphasis on education (most economic faculties in the Netherlands offer courses in environmental economics). The impact of academic economists on environmental policy is comparatively large. These results were largely driven by an autonomous process with relatively little influence of policy-makers or the National Science Board (NWO) on either the direction or the intensity of research.

Competition policy and deregulation

The policy-maker's demand for research in the field of industrial economics (related to the issue of competition policy) has not been met by academic economists although this demand was explicitly articulated at several instances. Policy-makers arguably needed 'guidance' when they were considering the need to align Dutch competition law to European standards. Neither theoretical research nor applied research was conducted although the research agenda was challenging both from a theoretical point of view and from a policy point of view.

Labour market and social security

The third case (the economics of labour markets and social security) by contrast has a long tradition of academic and applied research in the Netherlands. However, in our opinion this research effort did not seem to pay off in terms of policy, mainly because economists substantially disagree on the impact of, for example, minimum wages or trade unions.

To these three topics we added two subjects on which Dutch economists by and large seemed to agree:

- fiscal policy and
- monetary policy.

Fiscal policy is covered by Zalm's introductory lecture that is reproduced in the next chapter and monetary policy is partially covered by Duisenberg's preface to this volume.

... 2.5 ...

Lessons

This turned out to be a highly scientific conference agenda in the Popperian sense since many of our assumptions were falsified by the workshops.

Environmental economics

With respect to both the scientific character of environmental economics and its impact on actual policy Wolfson, Opschoor, Hafkamp, Lubbers and Pieters provide a number of sobering lessons. Wolfson is very cynical about the willingness of politicians to accept scientific advice. Opschoor is actually quite happy that economics ('a liability rather than an asset') is not taken seriously in environmental policy, but he is dissatisfied with the academic incentive system that is biased against applied economic research on practical questions such as the environment. Hafkamp and Lubbers seem to agree that economics is an asset for helping to make environmental policies more efficient. At the same time, however, they argue that the problem of environmental policy often is to change preferences and goals so that the usual Tinbergen (1952, 1956) policy problem does not apply. An other reason why the influence of economics on environmental policy is still limited (at least in government agencies) is that policy-makers are often not trained in economics and attach greater weight to legal and technical arguments. Pieters adds that this is so because the economic tool box is simply inappropriate for environmental science because economics is backward-looking, short-term and not concrete.

Competition policy and deregulation

Also with respect to industrial economics and competition policy our hypotheses were partly rejected by the workshops, especially by Van Gent's impressive list of Dutch quantitative studies on this topic. Van Gent kindly updates that list in his chapter on the changes in the Dutch Competition Law, showing that since the workshops were held 11 studies were published (an increase by about forty per cent). Incidentally, 3 of these studies were published in refereed international scientific journals. Interestingly the authors of those 3 articles are not from academia; they work at the ministries of Economic Affairs and Finance and thus we see, unexpectedly, that policy-makers rush in to fill the gap in scientific knowledge, successfully subjecting their analysis to the acid test of peer-review by the international scientific community.

Again the discussion between policy-makers and academics contains many sobering lessons for the Queen of Social Sciences. Kuipers actually argues

that scientific work can hardly play a role in economic policy-making. This is so because the real world is too complex and because it is very difficult (if possible at all) to empirically discriminate between hypotheses. Van Cayseele explains that modern theoretical insights cannot be communicated effectively to non-economists that happen to be in the majority in the policy-making institutions (Hafkamp makes the same point with respect to environmental policy). Van Cayseele suggests that 'old', less sophisticated theories should be used to guide the decision whether or not to investigate collusive behaviour since lawyers can only understand simple analyses.

Labour market and social security

Borstlap argues that it is the lack of relevant studies rather than the overdosis (as we had expected) that hampers the formulation of social and labour market policies. Den Butter refines Borstlap's demand for academic research so that Borstlap's questions become 'potentially researchable', but he warns that one should not expect a quick and unequivocal answer from academia. De Vries questions whether accumulation of economic knowledge is actually possible as no consistent set of opinions and policy recommendations has emerged as yet. Vijlbrief (in an unusual mood of *consensus*) agrees with Borstlap that economists should abandon their models that show only first-best solutions and give no insight in the second-best reality in which we happen to live.

Monetary and budgetary policy

Finally, even with respect to monetary and budgetary policy our hypothesis was falsified. While correcting the printer proofs for this volume we were surprised by the highly critical declaration on the economics of both the EMU and the so-called 'Dublin stabilisation pact' (Reuten et al. 1997). A group of mainly academic economists questioned the economic rationale for this 'essentially monetarist' experiment, pointing out the need to consider the social costs of implementing the EMU and arguing for a radical re-design of policies.

••• 2.6 •••

How to close the gap between science and policy?

Still, although many of our hypotheses were rejected, the workshops vividly illustrate our principal assertion, namely that a gap exists between theory and policy in the Netherlands. This gap exists even with respect to the very core of economics as, for example, shown by the discussion between, on the one hand, Van Gent and Gradus and, on the other hand, Kuipers and Van de Klundert.

The policy-makers argue that a better functioning of the market mechanism will improve macroeconomic performance. The academics contest the logic of this policy analysis.

A recurrent theme is the difficulty of getting the economic recipe accepted by policy-makers that have no training in economics. This suggests that both academic and non-academic economists could gain by a substantial, preferably concerted, effort in the marketing of economic analyses. Another theme is the question of how to get relevant research being done without sacrificing academic freedom. Opschoor wants to change the incentive scheme so as to take applied research better into account. As the present incentive scheme protects vested academic interests this will be a difficult way to go. Policy-makers could also take the first step in showing that a particular policy relevant research agenda is viable by making the first steps. Here the case of competition policy would seem to offer a useful model, although, as Van Gent clarifies, the upsurge in academic studies since 1993 may also reflect increased specific funding for applied research into competition and deregulation. A third option is to increase personal mobility. Vijlbrief suggests a dual track of education and on-the-job-training so that young economists get a better understanding of the needs and potentials of both academic economics and economic policy. Indeed more scientists should perhaps experience policy-making and more policy advisors should be teaching and researching at universities.

All in all, the challenge is to find new and better ways to improve communication between the academic profession and the policy-makers. Drawing both on the contributions made by experienced Dutch policy-makers and on their discussion with academic economists this book identifies at the level of specific policies some of the relevant bottlenecks and suggests some possible ways of bridging the gap between academic economists and economic practitioners.

We believe that it is worth the effort to bridge this gap. We agree with Duisenberg when he argues in his preface to this volume that the world will end up a somewhat better place to live in if we succeed in linking the academic profession more closely to the world of the practitioner. It will enrich the discipline of economics and lead to better policy. This is indeed what our experience as editors and organizers, with different backgrounds in the realms of academia and policy, suggests.

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