Summary of Central Planning Bureau (2020)  
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**Summary**

This report presents an overview of the state of the Dutch economy, highlighting the effects the pandemic has had on the economy so far as well as projecting economic development in the coming year. Two scenarios are presented: a baseline projection and a second-wave projection. The prediction in the former is economic growth in 2021, while the latter predicts further economic decline. It is shown that the pandemic and its mitigation measures have worsened income inequality. Detailed argumentation is given on the effects of wages, static purchasing power, pensions and inflation.

**Implications for infrastructure**   
Given the current crisis, there is an overall reduction in investments. The economic recovery projections show that investments will recover more slowly than consumption. This is especially true for housing investments since it is found that the housing market has a delayed response in times of economic crisis. On the other hand, government expenditures which are largely composed of investments on infrastructure or on reaching the climate goals, were the only economic activity contributing to GDP growth in the past quarter.

**Stock-and-flow diagram**

Macroeconomic recovery from the COVID-19 economic crisis is said to have already started at the time of publishing this report, not taking into account the second wave and measures introduced in October 2020. The pace of economic recovery is dictated by the prevalence of the virus (see Figure 1), inherent economic resilience and government support measures that cushion the economic blow. The effectiveness of these measures is said to decrease over time as the crisis gets worse, hitting the housing sector and international finances.

Compared to other European countries, the Netherlands has fared quite well. This is attributed to the extent to which economic activity is already digitized, as this has made it easier to work from home during lockdown; the overall economic sectoral structure, which is not heavily dependent on tourism or luxury consumer goods; and the existing social security scheme, such as unemployment benefit payments which have cushioned the blow on consumer demand and average wage; thus increasing the pace of economic recovery (see Table 1).

On the other hand, this inherent economic resilience is threatened by the pandemic’s adverse effects on socioeconomic inequality, which has only been unintentionally worsened by existing government policy since there is a lack of focus on the vulnerable (temporary contract workers, self-employed, flexi workers, participants in informal economy etc). Not only have these worsened employment and income inequality, but this effect is being enforced in the long term through education inequality as the vulnerable have worse conditions to engage in homeschooling and online education. The result of this is a vicious loop affecting quality of life for the vulnerable and their opportunities to advance socioeconomically. Moreover, quality of life increases the risk for contracting COVID-19, increasing the overall prevalence of the coronavirus and further reinforcing inequality.

Government measures support the extent of labor hoarding, thus lowering productivity and gross domestic product growth. This only increases the need for future government measures which will further support labor hoarding. A similar argument is given for the difficulty in tackling unemployment since initial economic recovery is likely present itself as an increase in working hours of existing employees, only affecting unemployment in the long-term when companies are financially secure enough to invest in new employees. Along with a general lack of job seeking confidence during this crisis, the rise in unemployment, seen through a change in labor supply in the model, is one of the most obvious symptoms of this crisis.



Figure 1. Stock-and-flow diagram based on Central Planning Bureau (2020)

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| 1 | 1 | Public finances have been severely impacted by support measures and lower tax revenues, but they are not in jeopardy. | Taxes -> Public income -> Public finances -> COVID-19 prevalence  GDP -> Public income  Support measures -> Public expenditures |
| 2 | 2 | Discouraged by the crisis, fewer people are actively in search of employment. | Job seeking confidence -> Change in labor supply |
| 3 | 3 | The challenge is to address underlying inequality, so that society will be more resilient if and when the next crisis hits | Employment inequality -> Economic resilience  Income inequality -> Economic resilience |
| 4 | 4 | Economic activity has partly rebounded, following the lifting of a large number of physical contact restrictions. | COVID-19 prevalence -> Pace of economic recovery |
| 5 | 4 | Unemployment and bankruptcies are slowly responding to GDP development. | GDP -> Change in labor supply GDP -> Number of bankruptcies |
| 6 | 4 | As the crisis lasts longer, hopes of a full recovery are fading away. | COVID-19 prevalence -> Pace of economic recovery |
| 7 | 4 | Bankruptcies and unemployment are damaging intangible assets and human capital | Number of bankruptcies -> Human and social capital  Labor supply -> Human and social capital |
| 8 | 4 | The extent to which countries are able to combat the virus and whether new or prolonged physical contact restrictions prove necessary in the coming period will determine the pace of economic recovery. | COVID-19 prevalence -> Pace of economic recovery  Effectiveness of support measures -> Pace of economic recovery  Support measures -> Pace of economic recovery |
| 9 | 4 | Things like neighbourly support, family visits and home schooling cannot all be captured in economic growth figures. The corona crisis has major consequences for the things that affect quality of life, such as celebrating a wedding or jubilee, and going to festivals, theatres and concerts | COVID-19 prevalence -> Change in quality of life -> Quality of life |
| 10 | 4 | Young people, the self-employed, flex workers and vulnerable groups on the labour market carry a disproportionately large share of the economic effects of the crisis. | COVID-19 prevalence -> Employment inequality Support measures -> Income inequality |
| 11 | 4 | Corona can also increase existing unequal opportunities in education and thus exacerbate income inequality, in the long term. | COVID-19 prevalence -> Education inequality -> Income inequality |
| 12 | 4 | The real challenge lies in tackling the underlying vulnerabilities themselves to ensure that society is more resilient by the time the next crisis hits. | Employment inequality -> Economic resilience  Income inequality -> Economic resilience |
| 13 | 7 | The extent to which countries have automatic stabilisers or can afford generous financial support policies, partly determines the severity of the downturn and probably also the pace of recovery. | Unemployment benefit payments -> Economic resilience -> Pace of economic recovery |
| 14 | 7 | The initial shock is now primarily affecting domestic demand, rather than external demand. | Foreign demand -> Change in GDP -> Gross domestic product |
| 15 | 7 | Nevertheless, in most other countries, the blow is even greater. It is too early for a definitive analysis of what causes this difference, but explanatory factors are likely to include the not too strict lockdown, the Dutch sectoral structure (i.e. not heavily dependent on tourism or consumer durables such as cars), the size and rapid implementation of the policy support package, and the relatively advanced nation-wide digitisation that has facilitated working from home and online retail. | Sectoral structure -> Economic resilience  Extent of digitization -> Economic resilience |
| 16 | 9 | But the support policy cannot prevent bankruptcies and lay-offs when companies have to adapt to a changing demand. This means that the effectiveness of the support policy will gradually decrease. | Effectiveness of support measures on economic recovery -> Pace of economic recovery  Support measures -> Pace of economic recovery |
| 17 | 9 | Breaking down GDP development by spending category in the baseline projections shows that, this year, the government is the only party contributing positively. | Support measures -> Pace of economic recovery -> Change in GDP -> Gross domestic product |
| 18 | 10 | With the NOW (Temporary Emergency Bridging Measure to Preserve Employment), the government has facilitated labour hoarding, but the effectiveness of this policy is gradually diminishing. | Support measures -> Extent of labor hoarding -> Change in GDP |
| 19 | 10 | Extension of the support policy reduces the increase in unemployment. | Support measures -> Pace of economic recovery -> Change in GDP -> Gross domestic product -> Change in labor supply -> Labor supply |
| 20 | 14 | The government is trying to cushion the impact by automatically expanding the budget in cases of economic setback. This automatic stabilisation mechanism has worked very well; the lower tax revenues and additional spending on unemployment benefit payments (WW) will negatively impact the balance by as much as 27.7 billion euros in 2020 | Unemployment benefit payments -> Economic resilience |
| 21 | 14 | Research into countries that were relatively hard hit by, for example, SARS and MERS, shows that income inequality increased at the time. The existing institutional and economic structure is also important for the level of impact on inequality. Policy responses also play an essential role. | COVID-19 prevalence -> Education inequality  COVID-19 prevalence -> Employment inequality  COVID-19 prevalence -> Income inequality  Support measures -> Income inequality |
| 22 | 16 | This effect is exacerbated even further if people with a lower socio-economics status are also more at risk of being exposed to the virus; for example, because they are more likely to have jobs in which working from home is not possible, are dependent on public transport, work in poorer working conditions, or live more often in densely populated neighbourhoods. | Quality of life -> COVID-19 prevalence |
| 23 | 17 | Although support policy is both necessary and generous, the unintentional side effect is an increase in inequality on the labour market. | Support measures -> Income inequality  Support measures -> Employment inequality |
| 24 | 18 | In the long term, too, the corona crisis may increase inequality by exacerbating the already existing unequal opportunities in education. Home schooling is a lot more difficult for those living in small homes, those who have less access to digital or other educational resources and for parents who have a lower education level themselves | COVID-19 prevalence -> Education inequality |

Table 1. Causal links found within Central Planning Bureau (2020)

**References**

Central Planning Bureau (2020) *Macro Economic Outlook (MEV) 2021.* https://www.cpb.nl/macro-economische-verkenning-mev-2021, accessed on 19 October 2020.