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Charting choices 2003-2006¹

economic effects of eight election platforms

¹ This publication contains the English versions of the Introduction and Chapter 1 of '*Keuzes in kaart 2003-2006: economische effecten van acht verkiezingsprogramma's*' (only in Dutch). Chapter 2 (The economic scenarios), Chapter 3 (Economic effects on the medium term), Chapter 4 (The environment, health care and Disability Insurance Act) and the annexes which present an overview of each party's specific policy proposals, are not available in English.

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Introduction

Election platforms deal with proposed choices. Everyone wants to take measures that cost nothing or have no down sides. But in practice everything has a price tag. As Milton Friedman said famously, 'There is no such thing as a free lunch'. A party cannot raise public spending, cut taxes and reduce the public debt all at the same time. Another sphere where choices have to be made, is in the balance between economic growth and environmental objectives which cannot be expressed in money terms, such as the reduction of CO₂ emissions. A third example is the dilemma between income solidarity with benefit recipients and stimulation of participation in the labour market by reducing the replacement rate, that is, the ratio between the benefits for those out of work and the net pay of those in work. With this analysis the Netherlands' Bureau for Economic Policy Analysis (CPB) wants to set out the choices which the political parties propose in their election platforms. This will reveal the various preferences they have.

In the runup to the general elections in 1986 the Christian Democratic Movement (CDA), the Labour Party (PvdA) and the People's Party for Freedom and Democracy (VVD) asked the CPB to work out the economic consequences of the implementation of their respective election platforms. The three separate papers prepared by the CPB were published jointly after the election. In 1989 Democrats 66 (D66) also requested an analysis. In that year the economic analysis of the four election platforms was published before the election. In 1994 Green Left (GroenLinks) made the same request as the other parties, so that in that year and in 1998 publications appeared on the economic effects of five election platforms.

This time eight political parties asked the CPB to analyse the economic effects of their election platforms: in addition to the PvdA, VVD, CDA, D66 and GroenLinks, also the Christian Union (ChristenUnie), the Socialist Party (SP) and the Reformed Political Party (SGP). To help it carry out a sound analysis, the CPB asked the parties to further elaborate and explain several aspects of their programmes.

Important elements of the analysis are the summaries of the budgetary, macroeconomic and purchasing power effects of the election platforms. With regard to the budgetary effects, the CPB looks at the implications of the proposed measures for income and expenditure of the public sector as a whole, which includes the central government budget in the narrow sense, as well as the budgets for social security and health care. The macroeconomic effects relate to the implications for the Dutch economy: output, employment, consumption, earnings, inflation etc. Purchasing power effects are not easily expressed in a single figure, because the implications for different types of households vary widely. Hence, in this context dot diagrams and a juxtaposition of the relevant figures for the various groups are presented.

In the course of preparing this study the CPB was also asked by various parties to pay attention to the more qualitative aspects of the proposed policies. In consultation with the parties, a decision was made to conduct an institutional economic analysis of policy intentions in the health care sector. Furthermore, as in 1998 and 1994, the parties were able to call on the National Institute of Public Health and the Environment (RIVM) for analyses of the environmental effects of their programmes. The RIVM reported its findings separately.

The VVD and CDA did not commission an analysis of the environmental effects from the RIVM or a qualitative analysis of the health care proposals from the CPB. And owing to a lack of resources, the SGP was not able to provide the requested elaboration and explanation of its programme; hence, the CPB analysis of the SGP's programme is limited to an examination of its proposed budgetary policy. This explains why this publication does not present a comprehensive analysis for all eight parties.

The starting point for the analysis is the cautious trend-based scenario for 2003-2006, as published in the Economic Outlook 2003-2006 (CPB, November 2001)². A week after the publication of the Dutch version of 'Charting Choices' on March 27, 2002, new projections for 2002 and 2003 were published in the Spring economic forecast 2002 (Central Economic Plan 2002)³. The new projections do not have any influence on the analysis of the economic effects of the various policy packages. However, the cautious scenario figures will have to be adjusted, with the budget balance amounts in particular coming out differently. These adjustments are the same for all parties, and so they will not distort the mutual comparability of the programmes. Boxes in chapter 3 outline the parties' plans for dealing with a possible deterioration of the budget balance in the reference year 2002. The CPB will prepare up-to-date figures for the medium term for use in the coalition negotiations.

The complete publication (in Dutch) is structured as follows. Chapter 1 offers a summary of the main findings. Chapter 2 offers a short description of the economic scenarios, which, without new policies, provide the basis for the analysis of the election platforms. Chapter 3 outlines each party's policy commitments and estimates the budgetary, macroeconomic and purchasing power effects. Chapter 4 focuses on several themes, such as the economic effects of environmental policy, the qualitative analysis of proposals to reform the health care sector, and a more detailed analysis of the proposals related to the Disability Insurance Act (WAO). A separate annex sets out each party's specific policy proposals. And finally, two annexes provide supplementary budgetary information and explanations of several economic concepts. This English version offers only a translation of the introduction and the first chapter.

² An English summary of this report is presented in *CPB Report 2001/4*, December 2001.

³ An English summary of the projections of the Central Economic Plan 2002 is presented in *CPB Report 2002/1*, April 2002.

Usefulness and limitations

The CPB analysis contributes to a better understanding of the contents of the election platforms and their mutual comparability in several ways:

- The same basic scenario as the starting point for the analysis applies to all parties. One party cannot boast better outcomes than another simply by being more optimistic about economic developments under unchanged policies.
- The further elaboration and explanation which parties provide with their programmes create greater clarity about the specific content of their policy proposals. Thus a party cannot get away with vague indications about substantial budget savings, with regard to WAO benefits for instance. The party will have to specify the kind of measures it wants to take, because it makes quite a difference whether it wants to change the benefit level, the eligibility criteria, or the premium differentiation.
- The uniform presentation of the policy proposals and their financial consequences makes the parties' commitments in the financial and economic sphere mutually comparable. The use of clear demarcations of what is included in, say, 'education', 'safety' or 'administration', reveals the differences and similarities between the parties in terms of the allocation of financial resources across the various policy areas.
- The CPB examines whether the various policy intentions are technically practicable and whether the resource allocations are realistic. The same measures have the same budgetary and economic effects, so that a party cannot arrive at more favourable results simply by being more optimistic about the effectiveness of the proposed policy.
- To this examination the CPB adds a projection of the economic effects of the various policy packages. These projections sometimes induce parties to adjust their draft programmes. Juxtaposed, the estimated economic effects offer a picture of the choices which the parties are making with regard to the various social and economic issues. Where one party attaches great value to the level of benefits, another is willing to exchange these in part for higher GDP growth. Parties also strike different balances between, for instance, economic and environmental targets.

This analysis also has some limitations. Thus not all policy intentions are easily translated into budgetary and economic effects, the figures suggest a precision that is not there, and election platforms deal with far more than just the economy:

- For many policy proposals the CPB considers the budgetary effects and the spending effects, but not what are known as the programme effects. Not enough is known about the economic effects of, for instance, more education, more public safety, or more infrastructure, leaving aside whether the proposed policy has been made concrete enough. In this publication the CPB tries to go one step further by offering a qualitative analysis of the different choices which the parties make regarding the system of health care provision. As a matter of fact, in many cases the programme effects will only become apparent after 2006.

- The analysis is restricted to measures which can be taken in the next government's term of office and to their economic effects within that term. Especially when measures only have a gradual impact on the economy, the effects in the final year (2006) may still be relatively small. This has been accommodated to some extent by highlighting the effects on trend-based or potential growth as well as the effects on actual economic growth.
- The analysis is also limited to measures which the Dutch national government can take itself. Measures which can only be taken in an international context, or which require policy changes by employers and trade unions or local authorities, are not taken into consideration.
- The quantitative analysis of the economic effects is surrounded by a number of uncertainties. The behavioural reactions of businesses and households cannot be predicted accurately. However, the estimated effects of policy proposals are probably more reliable than the regular economic forecasts. The wide uncertainty margins surrounding the forecasts are to a large extent determined by uncertainties surrounding international developments. The policy effects are not, or only marginally dependent on international economic conditions. Even so, the results of the effect analysis should be treated as broad brush, and no great significance should be attached to small differences between parties.
- The most important limitation of the CPB analysis is that the expected economic effects only touch on a few aspects of the wide-ranging political commitments contained in the election platforms. As mentioned, the RIVM will deal in a separate publication with the expected effects of environmental policies. In addition there are many other political objectives which are not being taken into consideration in these analyses.

Misuse?

When analysing the economic effects, the CPB uses several models which describe the key relationships between the macroeconomic variables. The operation of these models is known, at least in broad outline, from previous CPB publications. It has been suggested in the media that the political parties could make improper use of their knowledge of these models, by casting their programmes in such a way that they yield favourable model outcomes. Is this a valid point?

The answer to this question is twofold. In so far as the models offer a reasonable reflection of the actual relationships in the Dutch economy, such a use of model knowledge will indeed lead to a more effective policy programme. But there can be no suggestion of improper use here. That would only occur if a party cleverly responded to a model's unrealistic characteristics. But this is not possible because the CPB never accepts the model outcomes unquestioningly, it always tests them for their reality content. This will expose any weaknesses in the model, which can then be corrected.

An example of potentially misleading results is provided by the standard purchasing power calculations for notional households. The most widely used analysis concentrates on purchasing power figures for standard households, the best known being that of the 'average production

worker' (i.e. earned income in the market sector just below the compulsory health insurance limit, non-working partner, two children, rented home, no special deductible items). There are no standard purchasing power figures in this publication, because they give an unbalanced view of the purchasing power effects flowing from the various election platforms. The implications for income distribution are therefore illustrated in other ways.

All in all, then, much of the value of the CPB analysis lies in the exchange of information with the parties that has preceded this publication. The end result should help a wider audience to gain a better understanding of the election platforms, their mutual comparability and the choices which the various parties are making.

F.J.H. Don
Director

1 Summary

The analysis of the economic effects of the election platforms takes as its starting point the cautious scenario without new policies for 2003-2006. The CPB outlined this scenario in November 2001.⁴ The budgetary calculations are based on the multi-year figures set out in the Budget Memorandum 2002 and a projection of health care expenditure without new policies.⁵ The scenario is cautious because it allows a safety margin of ¼% percentage point per year in the projection of trend-based economic growth. This margin is clearly smaller than in the cautious scenarios used for the previous two governments' terms of office. Hence, there is a greater chance of setbacks than before, but it is still smaller than 50%.

1.1 Budgetary policy

Table 1.1 shows the broad outline of the eight parties' budgetary policy proposals. All parties call for additional spending on education, health care and public safety. In the basic scenario without new policies, spending in these policy areas already increases by 7 billion euro (in 2002 prices) in 2003-2006. On top of this figure the parties make further commitments ranging from around 2½ billion euro (VVD, D66, ChristenUnie) to 3½ billion euro (PvdA, CDA, GroenLinks and SGP) and more than 6 billion euro (SP). The additional resources are earmarked for a range of policy measures, including wage increases in the education system, a reduction of waiting lists in the health care sector, and raising the number of police officers on the beat.

GroenLinks and the SP opt for significant cuts in defence spending (0.9 billion euro and 2.9 billion euro respectively). The other parties plan either modest cuts (PvdA, D66), some additional spending (VVD, CDA and ChristenUnie), or no change (SGP) compared to the 0.3 billion euro growth in real terms in the basic scenario.

With the exception of the SP, all parties propose savings in public administration, ranging from 1.1 billion euro (D66, ChristenUnie) to 2.5 billion euro (VVD). Often these are in the form of normative budget cuts at central government level, and sometimes in the form of restrictions on funding for municipalities and provinces. These savings reduce the increase in spending on public administration amounting to 2.7 billion euro in real terms in the basic scenario. Four parties (VVD, CDA, D66 and SGP) want to save on balance on jobs created under the Inflow and Throughflow (I/D) scheme and under the Employment of Job Seekers Act (WIW) and Sheltered Employment Act (WSW). In contrast, the ChristenUnie and the SP advocate modest additional spending. The PvdA and GroenLinks opt for unchanged policies here. Through

⁴ An English summary of this *Economic Outlook 2003-2006* was published in *CPB Report 2001/4*, December 2001.

⁵ CPB and SCP (2001), *A scenario for health care expenditure 2003-2006* (only in Dutch), CPB Document 7.

changes in asylum policy the VVD and CDA save 0.3 billion euro. In contrast, GroenLinks's asylum policy will lead to additional spending of 0.2 billion euro. The SP reserves 0.1 billion euro to improve support for asylum seekers. The other parties' proposed asylum policies have no budgetary effects.

All parties earmark additional funds for infrastructure and/or the environment. With the PvdA, VVD, CDA, ChristenUnie and SGP the emphasis is on infrastructure, with GroenLinks and the SP on the environment. All parties earmark additional funds for public transport infrastructure. During the next government's term of office D66, GroenLinks, the ChristenUnie and SP want to introduce road pricing as a means of reducing traffic congestion.

Table 1.1 Expenditure policy in broad outline, 2003-2006

	PvdA	VVD	CDA	D66	GL	ChrU	SP	SGP
	billion euro, 2002 prices							
Balance of additional spending (+) and cutbacks (-)								
Education, health care and public safety	3.3	2.3	3.4	2.5	3.4	2.2	6.2	3.3
Defence and public administration	-2.3	-2.3	-2.1	-1.4	-2.4	-0.9	-2.9	-0.8
Infrastructure and environment	0.6	0.9	1.0	1.4	0.3	1.1	0.8	0.6
Social security and development aid	-0.2	-2.2	-1.0	-0.6	1.6	0.6	3.2	0.6
Other	-0.4	-0.7	-1.3	0.0	-0.3	-0.2	0.8	-0.7
Total net expenditure	1.0	-2.1	0.1	2.0	2.6	2.8	8.1	3.0

The largest differences among the parties in budgetary policy are to be found in social security and development aid. The VVD reduces the real growth in development aid that is included in the basic scenario to zero, while GroenLinks, the ChristenUnie and SP all argue for an increase of 1.0 billion euro. In social security the commitments range from 1.8 billion euro cutbacks by the VVD to 2.2 billion euro additional spending by the SP. Most of the savings in the social security sphere relate to the Disability Insurance Act (WAO). Section 4.3 (in the Dutch publication) gives an overview of the parties' WAO proposals. Other proposals include the reintroduction of the obligation to seek work for unemployed people over the age of 57½ years (VVD, CDA, D66, ChristenUnie), the decentralization of welfare benefit financing (VVD, CDA, D66, ChristenUnie) and additional benefit increases (CDA: basic state pension; GroenLinks and SP: all benefits).

Finally, the parties identify larger or smaller savings in other policy areas, in particular by reducing subsidies and/or increasing non-tax revenues (such as fines). Only the SP plans higher spending of 0.8 billion euro through net increases in various subsidies. With the exception of D66 and the SGP, all parties specifically reduce subsidies for businesses, on exports and technology for instance. The CDA and D66 propose significant subsidy cuts across the board.

Four parties (PvdA, VVD, CDA and GroenLinks) want to impose a levy or reduce subsidies to stimulate a more active use of the large equity held by housing corporations for urban renewal projects. The VVD and SGP save on the government's contribution to the broadcasting services. With the exception of the SGP, all parties call for an increase in the national budget for culture. The ChristenUnie and SP use the additional allocation to reduce museum admission prices.

Without new policies, total net public spending in the cautious scenario for 2003-2006 will increase by an average of 1¾% per year in real terms (cumulatively by 12¾ billion euro). Because of the cuts and increases proposed by the various parties, this growth figure changes (see table 1.2).⁶ Including new policies, the additional spending in real terms ranges from 1½% per year (VVD) to 2¾% per year (SP). Table 1.2 also shows how the eight parties' commitments affect the levels of real growth in the various spending clusters. The growth figures for education and health care are at least 3% per year in real terms. All the parties' commitments on public administration at national level result in low growth, and in some cases even fractionally negative growth.

	PvdA	VVD	CDA	D66	GL	ChrU	SP	SGP
	% per year							
Education	4	3½	4	4¼	4¼	3	5¼	4
Health care	4	3½	4¼	3½	4¼	4	5½	4
Public safety	4¼	4¼	4¼	3½	2¾	3½	3	4¾
Defence	1	1¾	1¾	1	- 1½	1¾	- 12¾	1¼
Municipalities and Provinces	1	1	1¼	2½	0	2¼	2½	2½
Other public administration	0	- ¼	0	¼	¾	¼	1	½
Infrastructure	1¾	3	2¾	2	- 1	2½	¾	1½
Social security ^b	2½	1½	2	2¼	2¾	2¼	3½	2½
Development aid	2	0	2	2	6½	6½	6½	4¼
Total net expenditure ^c	1¾	1½	1¾	2	2	2	2¾	2

^a Excluding macroeconomic effects of the programmes.
^b Including student grants and contributions towards education and school costs.
^c Excluding loans and sale of state-owned assets, including other spending such as on the environment

⁶ In addition there is the longer-term macroeconomic impact of the programmes, especially on the unemployment benefit volume and interest payments. These effects have not been included in table 1.2, but they have in table 1.4 and beyond.

On the revenue side, nearly all parties opt for higher taxes and levies on polluting activities and for burden relief on labour. With regard to taxes on capital and profits and other taxes (including excise duties on tobacco and alcohol), most parties opt for cuts on balance, but some for increases. Moreover, the measures affecting the various components vary widely (see table 1.3). All in all, the VVD, CDA, D66 and PvdA opt, to a greater or lesser extent, for net burden relief, GroenLinks for a neutral stance, and the SP, SGP and ChristenUnie for a net increase.

Table 1.3 Revenue policy in broad outline 2003-2006

	PvdA	VVD	CDA	D66	GL	ChrU	SP	SGP
	billion euro, 2002 prices							
Net tax increases (+) and cuts (-)								
Environment	3.5	0.2	0.0	1.7	14.6	3.6	2.6	0.4
Earned income and benefits	-2.4	-1.1	-1.9	-2.3	-18.3	-2.1	-1.0	0.2
Capital and profits	-1.4	-2.3	-0.1	-0.1	3.3	-0.7	3.5	0.5
Other	0.0	0.0	0.0	-0.1	0.4	0.7	0.1	0.8
Total tax and social security contributions	-0.4	-3.2	-2.0	-0.8	0.0	1.5	5.2	1.8

In the cautious scenario the budgetary scope was estimated at 3½ billion euro. This broadly means that without new policies, government revenues will increase by 3½ billion euro more in real terms than public spending. Table 1.4 shows how much parties want to extend this scope through spending cuts and in some cases also through net tax increases. Including the budgetary effects of the longer-term macroeconomic impact yields the total scope, which is then allocated between additional spending commitments, net burden relief and improving the budget balance. For every ½ billion euro improvement in the budget balance, the budget surplus (i.e. the EMU balance) will come out 0.1 percentage point of GDP higher in 2006 than in 2002. In the cautious scenario of November 2001, the EMU balance in 2002 comes out at 0.6% of GDP.

Table 1.4 Structure and allocation of the budgetary scope, 2003-2006

	PvdA	VVD	CDA	D66	GL	ChrU	SP	SGP
	billion euro, 2002 prices							
Scope in cautious scenario	3½	3½	3½	3½	3½	3½	3½	3½
Spending cuts	3¼	6	6¼	4¾	6	3¾	5¼	2½
Net tax increases						1½	5¼	1¾
Beneficial budgetary effects	<u>0</u>	<u>0</u>	<u>¾</u>	<u>-½</u>	<u>-1¼</u>	<u>-¼</u>	<u>¼</u>	<u>n.a.</u>
Total scope	6¾	9½	10¼	7¾	8¼	8½	14	7¾
Allocated towards:								
additional spending	4¼	3¾	6¼	6½	8½	6½	13¼	5½
net burden relief	½	¾	2	¾				
improved budget balance	2¼	2½	2¼	¼	-½	1¾	¾	2¼

The macroeconomic impact of the policy packages has no major budgetary consequences for most parties. Most additional spending commitments and most forms of burden relief do produce positive knock-on effects⁷, especially through a broadening of the tax base and a reduction in the unemployment benefit volume. Against this there are the mirror-image negative knock-on effects of most spending cuts and tax increases. On balance the net knock-on effects are small compared to those found in the programme analysis in 1998. This is due in part to the different economic conditions in the basic scenario and in part to the greater weight of programme elements with small positive, or large negative knock-on effects for the government budget (see box).

⁷ Positive and negative knock-on effects represent the changes in the EMU balance caused by the macroeconomic carry-over of the proposed policy measures. A positive knock-on effect is an improvement of the EMU balance, a negative knock-on effect a deterioration of the EMU balance. An example may clarify this: suppose that a political party intends to increase government consumption by 1 billion euro. This will initially reduce the EMU balance (ex ante) by 1 billion euro. Because of this measure government consumption and production will increase, which will increase employment and reduce unemployment. The tighter labour market will result in higher wages. The EMU balance will improve because of less unemployment benefits: a positive knock-on effect. The EMU balance will further improve, because higher wages and employment will result in higher tax revenues on wages and higher VAT-revenues. The higher wage rate also leads to a negative knock-on effect, because government wages will rise. On balance, a positive knock-on effect will result: the increase in government consumption reduces the EMU balance, including macroeconomic carry-over (ex post), by less than 1 billion euro.

Why are the positive knock-on effects so much smaller than in 1998?

In 1998 the CPB analysed the economic effects of the election platforms of the PvdA, CDA, VVD, D66 and GroenLinks.^a The positive knock-on effects of the programmes which the same parties have submitted this time, are around 2 billion euro smaller in four cases; only for the CDA do the positive knock-on effects come out slightly higher than in 1998.

There are, of course, many differences between now and then, both in terms of the programmes' contents and in the nature of the economic conditions which the parties face.^b The following factors account to a large extent for the difference in the knock-on effects:

- In contrast with four years ago, the basic scenario is now characterised by a tight labour market. This makes it more difficult to achieve favourable employment effects, and it also means that on average the positive knock-on effects of burden relief and spending increases are smaller.
- Cutbacks with relatively large adverse budgetary effects this time have a greater weight in the election platforms than in 1998. For instance, in the case of measures to reduce the number of WAO benefit recipients, the smaller WAO volume (ex ante savings) is offset in the first instance by a higher volume of unemployment benefit recipients (negative knock-on effect). In 1998 the four largest parties also planned various amounts of lower contributions to the European Union, a saving which has no negative knock-on effects for the Dutch economy.
- Additional spending commitments with relatively small positive knock-on effects this time have a greater weight in the election platforms than in 1998. Thus, four years ago various spending increases were deliberately conceived in labour-intensive terms in order to reduce unemployment.
- A number of parties are opting for tax increases with relatively large negative knock-on effects. For instance, environmental levies may achieve the intended behavioural changes which at the same time erode the budgetary gains.

^a *CPB Report 1998/1*, 'Charting choices: analysing five election platforms, Sdu Publishers, The Hague, p. 14.

^b There are also differences in the analytical instruments used. These are largely related to the need to set out the economic relationships in a tight labour market situation.

1.2 Macroeconomic effects

Table 1.5 shows the results of the macroeconomic analysis on the basis of a number of selected indicators. The results for the four largest parties (in terms of seats in Parliament before the elections) are discussed first, then those for the four smaller parties.⁸ The estimated effects of the policy packages are additional to the figures for the cautious scenario without new policies, which are shown in the first column. Less value should be attached to the precise level of the scenario figures than to the different effects of the election platforms.⁹

⁸ No macroeconomic analysis was carried out for the SGP programme, because the party did not have the resources to provide the necessary supplementary information.

⁹ This is why, as usual, the figures for the basic scenario have been rounded to quarters of a percent and the policy effects to tenths of a percent.

The three largest parties are able to nudge GDP growth slightly higher than the 2½% of the cautious scenario without new policies. However, there is a striking difference in potential growth: the VVD package pushes the annual rate of potential growth 0.5 percentage points higher than the 2¼% of the cautious basic scenario. The effect of the PvdA package on potential GDP, at 0.1 percentage point per year, is the same as the normal GDP effect. And the CDA package holds an intermediate position between these two (0.2 percentage points). The reason for these differences in potential growth must be sought above all in the policy differences on burden relief and social security spending (especially WAO benefits): the wedge, the replacement rate¹⁰ and the eligibility for WAO benefits are major determinants of the effectively available labour supply. The downside of high potential growth in the VVD package is relatively low household income growth in the short term: the supply-oriented policies carry a price tag in terms of modest real wage increases and a lower replacement rate. To a lesser extent the same applies to the CDA package. As a result, private consumption also grows less in the VVD and CDA packages than in those of the other parties.

Because the three largest parties all end up with a budget surplus (EMU balance) of 1.0% of GDP in 2006, this is not a source of differences as to what is feasible in other areas during the government's term of office. But because of the difference in potential growth, there are differences in the prospects after 2006: the structural budget surplus is clearly higher in the VVD programme, while the CDA programme also has a positive effect on the EMU balance after 2006.

The programmes of the PvdA, VVD and CDA push up annual employment growth from ¾% per year in the cautious scenario without new policies to 1% per year, a policy effect of 0.2-0.3 percentage points per year. However, the composition of employment growth differs sharply between the three parties. With the PvdA the emphasis is on employment in the public sector, where growth in full-time equivalents (fte's) is raised from 1¼% per year to 1½% per year. On balance, the CDA aims for the same rate of employment growth in the public sector as in the basic scenario, and its positive employment effects are achieved entirely in the market sector. In the VVD's programme employment growth in the public sector is limited to barely 1% per year, while employment growth in the market sector climbs to more than 1% per year.

¹⁰ The replacement rate measures the ratio between the net income out of work and that in work.

Table 1.5 Macroeconomic effects, 2003-2006

	basic scenario	PvdA	VVD	CDA	D66	GL	ChrU	SP
	% per year	effect on annual growth in percentage points						
Economic growth								
GDP	2½	0.1	0.1	0.1	0.0	-0.2	0.1	0.0
GDP, potential	2¼	0.1	0.5	0.2	0.1	-0.2	0.0	-0.1
Private consumption	3	0.1	-0.2	-0.1	0.1	0.1	0.0	0.0
Public spending ^a	1½	0.2	-0.1	0.1	0.0	0.0	0.3	0.0
Labour productivity, market sector	2¼	0.0	-0.2	-0.1	0.0	-0.4	0.0	0.0
Wages and prices								
Contractual wages, market sector	3½	0.1	-1.1	-0.5	-0.3	-0.6	-0.1	-0.2
Consumer price index	1¾	0.2	-0.4	-0.1	0.2	0.6	0.3	0.2
Real labour costs, market sector	2	0.1	-0.7	-0.3	-0.1	-1.0	-0.1	0.0
Labour market								
Employment total (fte)	¾	0.2	0.3	0.2	0.1	0.3	0.2	0.2
Employment, market sector (fte)	¾	0.0	0.4	0.2	0.1	0.1	0.1	0.0
Employment public sector (fte)	¼	0.3	-0.3	0.0	-0.4	0.5	0.3	0.2
	level 2006	effect on level in 2006 in percentage points						
Unemployment (in %)	4¾	-0.3	-0.2	-0.3	0.2	-0.3	-0.2	-0.2
Equilibrium unemployment (in %)	4¾	-0.2	-0.8	-0.5	-0.1	-0.3	-0.1	0.3
Various								
Replacement rate (in %)	71	0.1	-4.7	-2.5	-0.6	-1.3	-1.4	0.9
Profitability indicator ^b (in %)	8¼	0.0	1.7	0.6	0.2	0.3	0.2	-0.1
		level 2006, including policies						
EMU balance (in % GDP)		1.0	1.0	1.0	0.6	0.5	0.9	0.7
EMU balance, structural (in % GDP)		0.9	2.0	1.4	0.9	0.6	0.8	0.4

^a Public spending broadly corresponds to government expenditure excluding social security, development aid, subsidies and interest payments.

^b The profitability indicator is defined as the capital share of enterprise income in the market sector, net of corporation taxes.

The positive employment effects mean that with the three largest parties employment comes out 0.8-1% higher cumulatively by 2006 compared to the basic scenario. The projected unemployment percentage for 2006 comes out slightly lower with the PvdA than with the VVD, but the VVD's programme clearly offers a better outcome in terms of the equilibrium unemployment level. The VVD's policies are likely to lead to a considerable further fall in unemployment after 2006, in line with the high growth in potential GDP. Under the PvdA's policies unemployment will nudge upwards after 2006, because pay rates and labour demand in

the market sector will not yet have been fully matched to the supply. With the CDA the effect on unemployment in 2006 is the same as with the PvdA, and a further fall is likely after 2006, although it will not be as sharp as with the VVD. Equilibrium unemployment comes out at around 4¼% with the CDA, compared to 4% with the VVD and 4½% with the PvdA.

The PvdA's policy package has a small upward effect on inflation, owing to some upward wage pressure and higher environmental levies. Unlike the PvdA, the VVD and CDA opt for a lower replacement rate and a substantial package of burden relief, so that they are able to achieve a moderation in contractual pay rates in two ways. Consequently business profitability develops relatively favourably with the VVD and CDA, and inflation may also come out lower. The modest increase in real labour costs stimulates employment in the market sector, but will also be accompanied by relatively low growth in labour productivity. The scale of the VVD's plans in this sphere is clearly greater than the CDA's.

The four smaller parties stress different aspects in different ways.

D66 combines a relatively good environmental result (see section 4.1 in the Dutch publication) with a positive effect on potential GDP. D66's decision to reduce the number of subsidized jobs depresses employment growth in the public sector. The labour supply is expanded by measures in the social security sphere and the tax system. Against the pay-moderating effects of the additional labour supply, there are upward effects on labour costs owing to the abolition of the targeted reduction of social insurance contributions (SPAK) and the extension of pension rights. On balance the downward effect on real labour costs is limited until 2006, so that the market sector shows hardly any additional employment growth. The proposed tax measures stimulate part-time working, so that employment growth in persons comes out 0.1 percentage point higher than in the basic scenario. Unemployment in 2006 comes out slightly higher than in the basic scenario, but after 2006 it will fall to an equilibrium level that is actually slightly lower than in the basic scenario without new policies. Because the adjustment process to a structural equilibrium will not have been completed by 2006 in the D66 package, the budget surplus in 2006 will not yet have reached its structural level of 0.9% of GDP.

GroenLinks has an ambitious environmental programme, with high levies on polluting activities. This not only leads to relatively high inflation, in some sectors it also erodes competitiveness to such an extent that domestic production activity in those sectors will fall sharply. Both the actual and potential GDP growth will therefore come out significantly lower than in the basic scenario without new policies. Despite these negative effects, the high environmental levies generate substantial revenues, which are used by GroenLinks for targeted burden relief on labour. For this reason real labour costs can develop relatively favourably, and employment growth in the market sector is not compromised. In the public sector GroenLinks

aims for relatively high employment growth. The consequence of this is that the budget balance does not improve in the next government's term of office.

The ChristenUnie puts a strong emphasis on government spending. But because investments, expenditure on goods and services, the level of government wages and subsidies account for a relatively large share of the additional commitments, the effect on employment growth in the public sector is less pronounced. The spending impulse stimulates GDP growth during the next government's term of office, and indirectly also employment growth in the market sector.

Against the tax increases in the ChristenUnie package, there is a fall in the replacement rate, so that real labour costs are barely affected on balance. Unemployment in 2006 comes out lower than in the basic scenario, but only part of this gain is of a structural nature. The budget balance improves to 0.9% of GDP in 2006, while the structural figure is fractionally lower.

The SP, finally, opts for higher benefits and robust environmental policies. The higher replacement rates and the considerable tax increases lead to a higher structural level of unemployment, with equilibrium unemployment climbing to more than 5%. The redistribution of income brings a spending impulse over the short term, so that GDP growth is not compromised during the next government's term of office. However, potential growth comes out slightly lower, so that the structural budget balance also comes out on the low side. Against this there are benefits in the environmental sphere.

1.3 Purchasing power

The election platforms influence purchasing power in many ways, such as through changes in the tax system, measures in the sphere of social security and reforms in health care provision financing. The indirect effect of these measures on wages and prices is also important for purchasing power. Table 1.6 shows purchasing power changes in the cautious scenario including the effects of the election platforms. The purchasing power figures take account of different forms of income, such as income from employment, benefits, subsidies, pensions and capital. The figures relate solely to households of employees, civil servants, benefit recipients and pensioners. The purchasing power of most households increases, but not always to the same degree: the income distribution also changes. The average purchasing power increases and the redistribution effects differ from party to party. To illustrate these effects, table 1.6 shows the median¹¹ purchasing power changes for a number of different household groups. The differentiation is provided in four dimensions: income level, labour market situation, age and household situation.

¹¹ The median purchasing power increase means that half of the household group in question experiences a higher purchasing power increase and half a lower increase.

Low-income households, that is to say, those with incomes below the compulsory health insurance limit, will fare better in relative terms than high-income households with the CDA, GroenLinks, ChristenUnie and SP. These parties' programmes thus provide for a certain levelling of incomes. With the PvdA and D66 the purchasing power increase for low- and high-income households is the same. The VVD's policies lead to a widening of income differentials: the purchasing power of low-income households increases by only ½% per year, while high-income households will on average be 1¼% per year better off.

Benefit recipients fare better in purchasing power terms than employees with the CDA, ChristenUnie, GroenLinks and SP. The gap is widest with the SP, where the purchasing power of benefit recipients increases by an average of 3% per year and that of employees by 1¼% per year. The opposite applies with the VVD and D66, while there is no difference between the two groups with the PvdA. With the VVD the gap is relatively wide: benefit recipients will on average be ¾% per year worse off¹²; while employees see their purchasing power increase by 1¼% per year.

With most parties there is little difference between purchasing power changes for households where the main earner is older than 65 years, and for other households. An exception is GroenLinks, where older people's purchasing power increases by 1%, while other households will be 2¼% better off. This is a consequence of GroenLinks's plans to integrate premiums for the state pension benefit (AOW) into the tax system, which means that older people with a supplementary pension will pay more tax. With the VVD the increase in older people's purchasing power also lags somewhat behind that of other households. With the ChristenUnie and the SP the effect on older people's purchasing power is slightly greater than that for other households.

The difference in purchasing power trends by household situation are relatively small in the programmes of the PvdA, D66 and ChristenUnie. With the VVD the purchasing power of multi-person households increases relatively more than that of single-person households. The programmes of the CDA and SP work out relatively well for single-income households and single-person households compared to double-income households. With GroenLinks double-income and single-person households fare better than single-income households. This is due to the restriction of the tax credit for non-working partners.

¹² A small proportion of the burden-relief measures do not have the effect intended by the VVD, so that benefit recipients come out at -¾% in table 1.6. Part of the tax credit which VVD applies is not payable, because it exceeds the income tax and social security contribution liability. In the time available it was not possible to correct this problem along the lines that the VVD would have wanted, because the budgetary and macroeconomic consequences would have to be recalculated. The VVD is thinking of increasing the special assistance benefit.

Table 1.6 Purchasing power effects 2003-2006, cautious scenario including party policies

	PvdA	VVD	CDA	D66	GL	ChrU	SP
	median purchasing power changes in % per year						
Low income ^a	1½	½	1½	1	2¼	1¼	2½
High income ^a	1½	1¼	1	1	1½	1	1
Benefit recipient ^b	1½	-¼ ^d	1½	¾	2¾	1¼	3
Employee	1½	1¼	1¼	1	2	1	1¼
65 years and older ^c	1½	½	1¼	¾	1	1¼	2
Younger than 65	1½	1¼	1¼	1	2¼	1	1½
Single-income	1¼	1½	1½	1	¾	1¼	2
Double-income	1½	1¼	1	1	1¾	1	1½
Single persons	1½	¾	1½	¾	2	1¼	2

^a Low incomes are households with an income below the compulsory health insurance limit (30 700 euro for those aged younger than 65 years and 19 550 euro for those aged 65 and older); high incomes are all other households.

^b Excluding households which receive a basic state pension benefit (AOW).

^c Households where the main earner receives an AOW-benefit (possibly with a supplementary pension).

^d The VVD intends to correct this loss of purchasing power, see footnote 12 in the text.

As mentioned, table 1.6 shows median purchasing power changes. That is to say, within each group half of all households will be better off than the figure shown and half will be worse off. This does not take account of the fact that specific groups of households experience a considerably less favourable change in purchasing power. This is true in particular for high-income and affluent households in the programmes of GroenLinks and the SP, for they will face substantial tax increases. The skewed distribution of purchasing power changes is evident from the dot diagrams in chapter 3 in the Dutch version. Another important factor is that the self-employed and company directors are not included in the purchasing power figures; these are often also households with relatively high incomes and assets, which will experience less favourable purchasing power effects with GroenLinks and the SP.

1.4 Conclusion

Among the wider public the CPB analysis is invariably described as a ‘calculation’ of the election platforms. The public’s interest in the analysis focuses on how the quantitative results for the various parties compare, and often for only a few variables. The outcomes are then almost treated – without justification – as performance scores.

However, the purpose of this report is to illustrate the choices which the various parties are making. A good result on one variable invariably means a lower score on another variable.

Sometimes the dilemmas are contained within the financial and economic sphere, but sometimes the downside of the results will be evident in another sphere, such as the environment or the quality of the education system. This summary offers an insight into the financial and economic policy choices made by the parties involved. This can then be used as a starting point for public debate and as an information source for the voter.