

## **CPB Document**

**No 139**

December, 2006

**Charting choices 2008-2011: economic effects of  
eight election platforms**

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ISBN 90-5833-307-8

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# 1 Introduction

In the run-up to the Dutch general election on 22 November 2006 the CPB Netherlands Bureau for Economic Policy Analysis (CPB) published an analysis of the economic effects of eight election platforms.<sup>1</sup> The CPB conducted this analysis at the request of the political parties in question. This was the sixth occasion since 1986 that such an evaluation of election platforms has been made, so it is by now somewhat of a tradition.

This working document contains an extensive summary of the study's findings. Section 2 provides some background information, considering the contents, merits and limitations of the analysis. Section 3 outlines the scenario for the Dutch economy which serves as the basis for the analysis. Section 4 considers the effects of the election platforms: first the implications for the public finances, macroeconomic developments and purchasing power; then the extent to which the parties' policy packages will succeed in improving the sustainability of the public finances; and finally, proposals in the areas of education, science and innovation. The study aims to chart not only the parties' expenditures on these policy areas, but also the positive effects of the policy proposals.

## 2 Analysing election platforms: contents, merits and limitations

### 2.1 Contents

The CPB study makes it possible to compare the parties' election platforms on economic aspects. Key elements of the analysis are the implications for the public finances, macroeconomic developments and purchasing power. As far as the budgetary effects are concerned, the CPB devotes attention to the implications of the proposed measures for the revenues and expenditures of the public sector as a whole, that is to say, the central government in the narrow sense, the social security and labour market sphere, and the publicly financed part of the health service. The macroeconomic effects concern the implications for the Dutch economy, specifically those for GDP, employment, consumption, wages, inflation and so on. The purchasing power effects cannot be easily expressed in a single figure, because the implications of party programmes may differ widely between types of households. These effects are therefore expressed in a scatter diagram and by means of specific figures for different groups of households.

This study differs from previous exercises in several respects. For one thing, it was prepared under much greater time pressure. This had to do with the fall of the coalition government and

<sup>1</sup> See CPB (2006b).

the consequent calling of early elections. The time pressure is also the reason why the environmental implications of the election platforms were not taken into account this time (as they were in 2002). For the same reason the CPB also decided to abandon the original plan to set out the benefits of investments in infrastructure.

However, in two spheres the current study actually offers additional information compared to the previous studies. This time attention was paid to effects of the parties' policy proposals in the area of education, science and innovation and to the implications of the parties' election platforms for the sustainability of the public finances.

The CPB recently published a study which sets out the latest insights into the economic implications of investments in the area of education, science and innovation.<sup>2</sup> In this study the authors indicated, on the basis of empirical research, which proposals are "promising" and which are not, and which proposals cannot be judged along these lines on the basis of experiences elsewhere. A proposal was deemed to be "promising" if the benefits were expected to exceed the costs, that is to say, if welfare improves as a result of the proposal's implementation. The parties' proposals in the area of education, science and innovation have been evaluated in the same way in "Charting choices" (see section 4.5).

The analysis of the implications of the election platforms for the sustainability of the public finances relies on a recent CPB study on the effects of population ageing on public finances.<sup>3</sup> This study concludes that the public finances are not sustainable under current public spending plans and tax and social security contribution levels. The study gives an estimate of the size of the "sustainability deficit" and the corresponding extent of the policy adjustments required (as a percentage of GDP) to make the public finances sustainable. "Charting choices" shows to what extent the parties will succeed in improving the sustainability of the public finances.

How does the CPB analysis come about? Well before the general election the CPB publishes a scenario for the Dutch economy for the next government's term of office (a four-year period). This scenario offers an indication of the development of the economy and the public finances under unchanged policies. The CPB opts for a cautious scenario for economic growth. This is because since 1994 budgetary policy has been based on a lower economic growth rate than the most probable forecast. This approach reduces the probability of budgetary setbacks during the government's term, and hence also the chances of having to take interim austerity measures not foreseen in the coalition agreement.

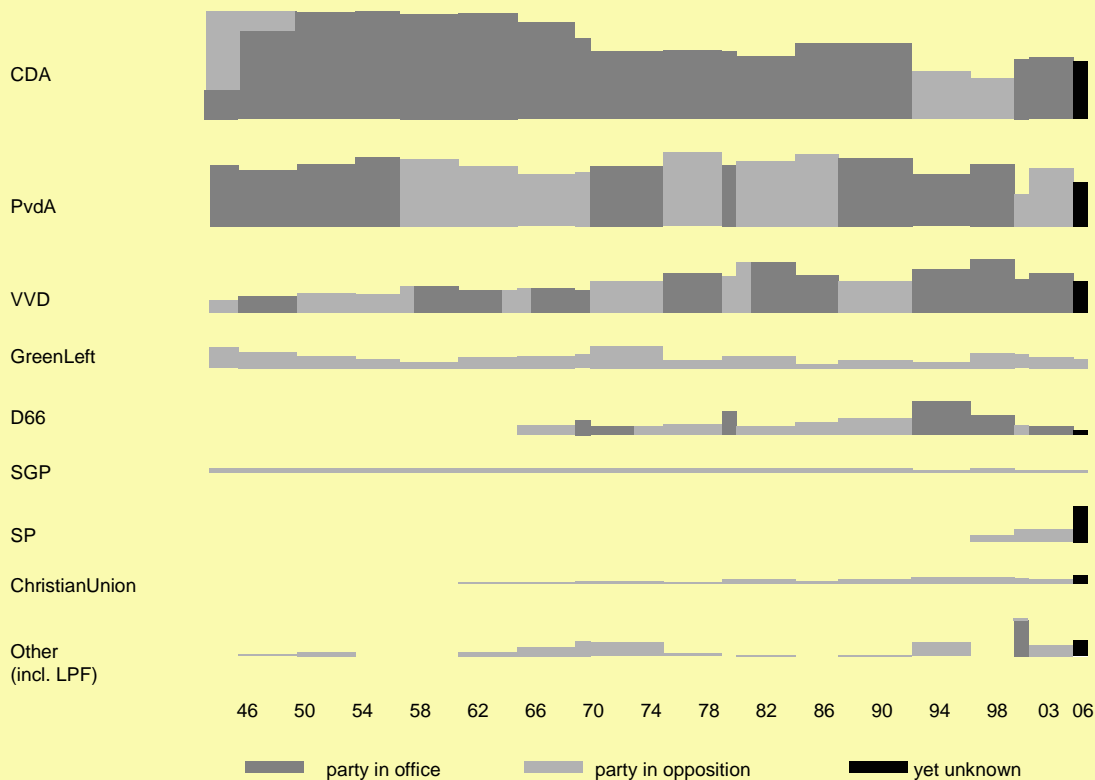
<sup>2</sup> See M.F. Cornet et al. (2006).

<sup>3</sup> See C. van Ewijk et al. (2006).

In the run-up to the general election the political parties draw up their programmes for the forthcoming government term. These programmes include a financial section, which outlines the financial consequences of the policy proposals. Each party which wants to have its programme evaluated submits it to the CPB. This time eight parties did so: the Christian Democratic Movement (CDA), the Labour Party (PvdA), the People's Party for Freedom and Democracy (VVD), the Socialist Party (SP), the Green Left (GL), Democrats '66 (D66), the Christian Union (ChrU) and the Reformed Political Party (SGP).

### The Dutch political landscape

The Netherlands has a multi-party system. Because of the system of proportional representation, in effect no single party can secure a majority in parliament. Dutch coalition governments often consist of three or even four parties. The Christian Democratic Movement (CDA) and its predecessors – the catholic KVP and the protestant ARP and CHU parties, which merged in 1977 – constituted a steady factor in Dutch politics until 1994. That year saw the unprecedented formation of a “purple” coalition of the Labour Party (PvdA), the right-liberal People's Party for Freedom and Democracy (VVD) and the left-liberal Democrats '66 (D66). After the elections of 2002, a new coalition took office consisting of the CDA, the VVD and a new party, the Pim Fortuyn List (LPF), named after its founder. After the snap elections of 2003, three parties formed a new government: CDA, VVD and D66. The last party withdrew from the coalition in mid-2006. Since then a minority caretaker administration has been in office composed of ministers from the CDA and VVD.



The CPB then has detailed discussions with each of the parties. During these discussions the parties are invited to give further details of their policy proposals. The CPB will ask the parties for further details if, for instance, the policy proposals in the election platform are not specific enough to be analysed, or if it is not clear how much money a party wants to allocate to certain policy proposals.

In working out the effects of the programmes, the economic scenario for the next government's term of office serves as the baseline projection. The CPB submits its preliminary findings on an election platform's economic effects to each party in question. The parties may then adjust aspects of their policy proposals, and in practice they often do. The reported effects of the programmes are based on parties' final submissions to the CPB.

## **2.2 Merits and limitations**

Why does the CPB offer the political parties an opportunity to have their election platforms analysed? In the first place this is intended as a service to the voters. The CPB tries to provide the best possible estimates of the costs and the benefits of, for instance, the tax measures and the subsidies which the parties advocate. The analysis thus gives voters an opportunity to compare the economic aspects of the party programmes on an impartial basis, since all programmes are evaluated in the same way. The analysis seeks to avert arguments about the "facts", so that the election campaign can concentrate on what matters, namely the political choices.

The CPB's analysis helps to broaden understanding of the contents of the parties' election platforms and extends their comparability in several ways:

- The same basic scenario for the next government's term of office is used to evaluate each election platform. This means that differences in outcomes between the parties cannot be due to diverging assumptions about economic developments.
- The political parties have to elaborate and explain their proposals in such a way that the CPB is able to analyse them. This means that the parties cannot (on the basis of unfounded optimism) exaggerate the benefits and/or understate the costs of their proposals.
- The policy proposals and their financial consequences are presented in a comparable way. This means that the parties' commitments in the financial and economic sphere can be compared to each other.
- The CPB systematically investigates the consistency of the programmes. The parties can spend money only once. In their initial proposals they are sometimes guilty of "miscalculations", but such issues are invariably resolved in the detailed discussions between the party in question and the CPB.



- The CPB includes in its analysis only measures which are expected to be technically and legally feasible. If the CPB does not have the in-house expertise to make a judgement on the feasibility or legality of certain proposals, then it obtains advice from other institutions.

The CPB was not able to analyse the election platforms in the run-up to the 2003 general election, because the government fell at an unexpected moment and for that reason there was not enough time to examine the parties' proposals in detail. The experience of that year illustrates the advantages of the CPB analysis. The political parties claimed that their policies would have a range of favourable implications for the economy and the public finances. The other parties then questioned the claimed effects during the campaign. Voters had no basis on which to judge which claims were justified and which were not. The arguments over the "facts" did not enhance the quality of the political debate.

The CPB's analysis should not be regarded as a value judgement or a seal of approval, let alone as advice on how to vote. Programmes are not evaluated as good or bad, they just contain different political choices. The analysis shows the implications of these choices, so that the economic effects of the programmes can be compared. It is up to the voters to decide which effects appeal to them. In as far as their political preference is based on economic considerations, the CPB analysis can be of assistance to them. In any case, voters are of course free to ignore the CPB's analysis. After all, elections are not just about the economy and the budget. The political debate is also about other objectives, such as the quality of education and the environment, the perception of public safety and the accessibility of public services.

"Charting choices" is not only useful for voters. As soon as the results of the CPB analysis are published, the political parties use these results to defend their policy proposals. It is not unusual for politicians to bombard each other with CPB figures during election debates. The study also comes in handy after the election, during the formation of a new coalition government. In the Netherlands, parties usually form governments on the basis of wide-ranging coalition agreements. This means that elections are often followed by detailed negotiations, and consequently the formation of a government can be a very long process. The coalition agreement plays an exceedingly important role during the government's term of office. It sets out the results of the give and take among the coalition partners on many policy issues. It is also the starting point for discussions on the government's decisions or if new developments demand a policy response. It is not easy to amend certain elements of the coalition agreement without risking the whole agreement unravelling or even the coalition collapsing. This explains why policy adjustments are difficult to achieve in the course of a government's term.

The CPB study is useful during the coalition negotiations because it offers an initial overview of the economic and financial implications of the various parties' proposals. It thus offers a starting point for negotiating the terms of a coalition agreement. Given the inevitable

differences in the parties' perspectives, the CPB study facilitates the exchange of information between the parties on the implications of their policies. However, something similar applies as in the case of the voters: it is up to the politicians how they want to use the CPB study.

To what extent are the study's results sensitive to the strategic behaviour of political parties? Or to put it even more strongly: can parties abuse features of the CPB's models? The old economic saying that "there are no 20-dollar bills lying on the sidewalk" can be invoked here, or another favourite CPB maxim: "no pain, no gain". Politics is about making choices. Almost invariably these choices leave both winners and losers. After all, if a measure would only have winners, it would have been taken long ago. Each measure is thus likely to have an upside and a downside.

This can be illustrated with several examples:

- An increase in labour market participation leads to stronger economic growth. But prosperity is more than just growth: higher labour market participation will be at the expense of people's leisure time, for instance.
- A demand for more public services may have a price tag in the form of lower private spending power.
- Stimulating structural economic growth may clash with reducing income differentials through redistribution. If the former is considered more important, the latter will be more difficult to realise, and vice versa.
- A favourable development over the short term may be at the expense of developments over the long term. The costs of population ageing are case in point. Postponing appropriate measures will spare today's generations, but it imposes a greater burden on future generations. Investments in the knowledge economy are another case in point. They may reduce consumer spending over the short term, but against this they may well contribute to greater prosperity in the future.

The CPB always seeks to set out the upsides and the downsides of policies in good faith. If the analysis of a measure only reveals an upside in the first instance, this is a reason for suspicion. As said, there are no 20-dollar bills lying on the sidewalk, because they get quickly picked up. A measure that has no downside raises the question whether it is feasible. Typical examples are "the fight against fraud" and "efficiency gains". All political parties are opposed to fraud. If it were possible to fight fraud in a cost-effective way, it seems likely that the appropriate measures would have been adopted a long time ago. That is why commitments of this kind should be viewed with some scepticism.

Another question which the CPB asks itself if a measure only has positive effects is whether the economic model which has been used takes account of all relevant mechanisms. Another CPB

maxim can be invoked here: “different models for different purposes”. It is not possible to build a single model which is suitable for the analysis of all possible policy measures. Such a model would be unmanageable. Hence the CPB uses a number of models: it uses the applied general equilibrium model MIMIC for the effects of tax measures on the labour supply; it uses another long-term model, GAMMA, to evaluate the sustainability of the public finances; and it uses the model SAFFIER for the macroeconomic impact of measures over the short and medium term. Microeconomic simulation models are used to calculate the proceeds from tax and social security contribution measures and the effects on purchasing power. Furthermore, previously published or ongoing CPB studies are also used to analyse specific policy measures.

A final, and indispensable, input for the analysis is a dose of common sense. Each measure is evaluated in terms of its feasibility, each model outcome on its plausibility. Thus it is the full range of instruments at the CPB’s disposal as well as its experience which enable it to decide on a case-by-case basis which analytical instrument is best suited to evaluate a specific policy measure.

### **3 A scenario for the Dutch economy**

#### **3.1 The Dutch economy in 2008-2011**

An evaluation of the economic effects of a party’s election platform is only possible against the background of a projection for the Dutch economy. The CPB has prepared a cautious scenario for the period 2008-2011 which serves as the baseline projection for the analysis.<sup>4</sup>

The cautious scenario assumes that the economy will expand by an average of 1¾% per year. Economic growth in this scenario is ½ percentage point lower per year than the projected potential economic growth. Some ¼ percentage point of the difference between actual and potential economic growth in the cautious scenario arises from the use of a safety margin. The other difference of ¼ percentage point relates to the performance of the economy in 2007. The output gap is expected to come out at ¾% in 2007. In other words, actual GDP may well come out ¾% above potential GDP. The assumption is that the stance of the cycle will be neutral by 2011, that is to say, the output gap in that year will be nil. The closing of the output gap of ¾% in 2007 means that, in the years 2008-2011, actual economic growth will be almost ¼ percentage point lower per year than potential growth.

<sup>4</sup> For a full description of this scenario, see CPB (2006a).

### 3.2 The public finances in 2008-2011

The cautious scenario is based on the assumption of unchanged policies. That is to say, all the policy measures taken by the outgoing government are taken into account, but measures taken by the new government are not anticipated.

The EMU balance is expected to come out at around nil in 2007. In the cautious scenario under unchanged policies, government revenues will increase faster than public spending, so that the EMU balance will improve. Table 3.2 shows the changes (in 2007 prices) of the relevant revenues and expenditures and the consequent level of the EMU balance in 2011. In the cautious scenario the revenues of the central government (taxes) and the social security funds (social security contributions) will increase by 24¾ billion euros over the next government's term of office. Expenditure ceilings apply to three categories of public spending (i.e. central government in the narrow sense, social security and labour market, and health). The expenditures in these "budget discipline sectors" will increase by 14½ billion euros in the basic scenario. Other relevant expenditures will increase by 4¼ billion euros more than other relevant revenues during the next government term. Given these changes in government revenues and public spending, the EMU balance will increase in the cautious scenario from around nil in 2007 to around 6 billion euros in 2011. The EMU balance will thus improve to the equivalent of 1.0% of GDP by 2011.

**Table 3.1 EMU balance in 2011, cautious scenario**

	billion euros, 2007 prices	
EMU balance 2007 (1)	0	
Increase in revenues from taxes and social security contributions (2)	24¾	
of which taxes		12½
social security contributions		12½
Increase in expenditures under budget discipline sectors (3)	14½	
of which central government in the narrow sense		2¼
social security and labour market		3½
Health		8¾
Increase in other expenditures minus increase in other revenues (4)	4¼	
EMU balance 2011 (= 1 + 2 - 3 - 4)	6	

<sup>a</sup> All amounts in 2007 prices. The deflator used is the price of GDP.

### 3.3 Budgetary targets over the long term

Because of the ageing population and the gradual exhaustion of the natural gas revenues, public spending – on the assumption of current public service provision and tax and social security contribution rates – will increase faster than government revenues over the coming decades. This means that without new policies, the EMU balance will deteriorate and the public debt will

increase. The consequent higher interest payments will further widen the budget deficit. In short, without new policies the public debt will eventually spiral out of control. Policy adjustments will therefore be needed sooner or later. If no adjustments are made in the coming years, more extensive adjustments will have to be made in the future. Postponing measures will therefore disadvantage future generations. If measures are taken quickly, the burdens of the necessary adjustments will be distributed more equally across the generations.

The public finances are sustainable if the existing public services can expand in line with overall prosperity without taxes having to be raised in the future or without the public debt spiralling out of control. In the spring of 2006 the CPB published a study which concludes that the public finances are not sustainable at the moment.<sup>5</sup> This study shows that the best way to evaluate the sustainability of the public finances is on the basis of what is known as the “robust” EMU balance. This indicator differs in several aspects from the “normal” EMU balance. The robust EMU balance corrects the EMU balance for the impact of the economic cycle, and leaves out of consideration interest payments on the expenditure side of the budget and interest and dividend income and natural gas revenues on the revenue side.

<b>Table 3.2 The public finances in 2011, cautious scenario</b>	
	levels in % of GDP
EMU balance (1)	1
Cyclical component of EMU balance (2)	0
Structural EMU balance (3 = 1 – 2)	1
Interest payments (4)	2
Primary structural EMU balance (5 = 3 + 4)	2¾
Interest and dividend income (6)	1
Natural gas revenues (7)	1½
Robust EMU balance (8 = 5 – 6 – 7)	½
Sustainable robust EMU balance (9)	2
Sustainability deficit (10 = 9 – 8)	1½

In the cautious scenario the robust EMU balance comes out at ½% of GDP in 2011. This balance is thus ½ percentage point lower than the “normal” EMU balance for that year, which is projected at 1% of GDP (see section 3.2). Table 3.3 shows the composition of this difference of ½ percentage point. The cyclical component of the EMU balance is virtually nil in 2011, so that the structural EMU balance will be virtually the same as the actual EMU balance. The difference is almost entirely due to the fact that interest payments, interest and dividend income and natural gas revenues are not included in the robust EMU balance.

On the basis of current perceptions, making the public finances sustainable will require a robust EMU balance of 2% of GDP in 2011. In the cautious scenario the robust EMU balance will

<sup>5</sup> See C. van Ewijk et al. (2006).

amount to ½% of GDP in 2011, and thus 1½ percentage points below the sustainable robust EMU balance. The “sustainability deficit” will thus amount to 1½% of GDP in 2011.

## 4 The economic effects of the election platforms

### 4.1 Fiscal policy

Seven political parties asked the CPB to analyse the economic effects of their election platforms: the Christian Democratic Movement (CDA), the Labour Party (PvdA), the People’s Party for Freedom and Democracy (VVD), the Socialist Party (SP), the Green Left (GL), Democrats ’66 (D66) and the Christian Union (ChrU). One party, the Reformed Political Party (SGP), asked the CPB only to chart the ex ante budgetary effects of its election platform. This means that for this platform the CPB calculated the implications for the public finances without taking into account the macroeconomic effects of the policy proposals.

This section focuses on the issue of the resources which the political parties want to allocate to the various policy areas and what they want to do about taxes and social security contributions. Less bureaucracy, better education and a more efficient health service are major themes in the election platforms of 2006.<sup>6</sup> Some parties want to cut taxes and social security contributions, especially for families.

Table 4.1 shows the increase in net public spending in the cautious scenario and the net additional public spending (i.e. the balance of new commitments and cuts and savings) which the parties advocate for the next government’s term of office. All amounts in the table are expressed in 2007 prices.

In the cautious scenario the outlays on public administration will increase by 2¼ billion euros in 2008-2011. All parties want to restrict this increase. The calls for net cuts and savings in public administration range from around ¼ billion euros (SP) to around 1½ billion euros (CDA). Some of these cuts and savings fall on local government; others are realised mainly by imposing efficiency targets on the central government. The CPB assumes that these budget cuts will lead to lower levels of public services, for instance by hiving off certain tasks to the private or voluntary sector.

All parties advocate additional outlays on education. In the cautious scenario under unchanged policies, education spending will increase by 2 billion euros in 2008-2011. The parties’ net additional spending commitments come on top of that. The GL, D66 and SP call for the highest

<sup>6</sup> In this paper the description of the net additional spending commitments will be restricted to these main themes and social security. CPB (2006b) provides a full overview.

increases in education spending (by 3 billion euros, 2½ billion euros and 2 billion euros respectively). The PvdA allocates an additional 1½ billion euros to education, the VVD 1 billion euros, the CDA and SGP both ¾ billion euros, and the ChrU ½ billion euros.

All parties want to improve the efficiency of the health service. However, they have very different proposals on how this is to be achieved. Six parties – PvdA, VVD, GL, D66, ChrU and SGP – want to introduce more market forces into the health service, above all through some deregulation of hospital prices. The CDA wants to extend the role of market forces much more aggressively in the next government’s term of office, not only by deregulating hospital prices but also by making all regulations governing healthcare providers much more market-oriented.

**Table 4.1 Net additional public spending<sup>a</sup>, 2008-2011**

	Baseline	CDA	PvdA	VVD	SP	GL	D66	ChrU	SGP
	billion euros, 2007 prices								
Public administration	2¼	- 1½	- 1¼	- 1¼	- ¼	- ½	- 1	- 1	-¾
Public safety	¾	- ¼	- ¼	0	0	0	- ¼	¼	½
Defence	0	- ¼	- ¼	0	- 2½	- ¾	- ¼	0	¼
Infrastructure	- ½	¼	0	½	- ¼	- 2	0	- ½	0
Environment		¼	¾	0	½	1¼	½	0	0
Education	2	¾	1½	1	2	3	2½	½	¾
Health	8	- ¼	0	- 1	1	½	- ¼	- ¼	¼
Social security	2¾	2¼	2	- 1	3¾	3¾	- 2	1¼	1¼
Development cooperation	½	0	½	- ½	½	1	0	½	½
Other	2½	- ¾	0	- ¾	- ¼	- ½	- ½	- 1¼	- ¼
Total adjusted net additional public spending	18½	¼	3	- 3¼	4¼	5½	- 1	- ½	2½

<sup>a</sup> The “Baseline” column shows the spending increases in the cautious scenario. The net additional spending commitments come on top of that. All amounts are in 2007 prices. The deflator is the price of GDP.

The SP wants to move in the opposite direction. It wants to make the health service better and more efficient by abandoning all further efforts to introduce market forces and by giving the government a directing role. The VVD’s policy package leads to a net reduction in healthcare spending. The SP and GL also want to make the health service more efficient, but they call for a net spending increase. The PvdA wants to use efficiency gains to extend the basic health insurance package. The CPB expects that in the long run (beyond 2011) the CDA will achieve considerable efficiency gains by introducing regulated competition across the board. However, significant risks and uncertainties are attached to this. For instance, a lack of reliable information on the quality of healthcare may lead to a loss of quality overall.

The political parties have different views on social security. The VVD and D66 both advocate net cuts in the social security budget (by 1 billion euros and 2 billion euros respectively). By

contrast, the other parties want to allocate more resources to social security. The additional outlays range from 1¼ billion euros (ChrU, SGP) to 3¾ billion euros (SP, GL). The net cuts advocated by the VVD are achieved in particular by linking benefit levels to price increases rather than contractual pay increases, shortening the period of eligibility for unemployment benefit, and abolishing welfare benefits for people under the age of 27. Against these cuts, the VVD calls for an increase in childcare support. D66 achieves its cuts by shortening the period of eligibility for unemployment benefit and raising the official retirement age. The ChrU and SGP allocate additional resources for the introduction of a child-linked budget and for an increase in the child allowance. The PvdA allocates additional resources to childcare in particular. In the case of the SP, most of the additional outlays are accounted for by an increase in social security benefits and a review of the re-examinations of disability benefit recipients. The CDA allocates more resources for the child allowance and the rent allowance. The GL allocates additional resources for an increase in social security benefits, free childcare, and a leave scheme for retraining, parenthood and care.

Table 4.2 shows the changes in the micro burden (in 2007 prices) which occur in the cautious scenario under unchanged policies.<sup>7</sup> The table also shows the changes in the micro burden compared to the basic scenario which flow from the parties' election platforms. The micro burdens for households and businesses will increase by 3¼ billion euros and ¼ billion euros respectively under unchanged policies. Most of this is accounted for by the increase in health insurance contributions. Three parties – VVD, SP and D66 – want to reduce the tax burden on households considerably compared to the basic scenario. The platforms of the PvdA, GL and ChrU provide for a smaller burden relief for households. The CDA and SGP opt for a limited increase in the tax burden on households. The cuts in the tax burden on households are achieved through a wide range of measures. The VVD and D66 want to achieve most of the advocated relief by cutting income tax rates. Many parties support a higher labour tax credit. No party calls for a reduction of taxes and social security contribution rates for businesses. In fact, six platforms result in a higher burden for businesses.

The changes in the micro burden can also be divided in terms of assessment base. In the cautious scenario the taxes on labour and income increase by 4¾ billion euros, while the taxes on capital and profit fall by 1¼ billion euros. All parties opt for higher taxes on polluting activities and on capital and profit, albeit to different extents. Nearly all parties want to reduce taxes on labour and income compared to the basic scenario. Nearly all platforms lead to an increase in other taxes (including excise duties on tobacco and alcohol).

<sup>7</sup> An increase in the micro burden by x billion euros means that households and businesses have to pay x billion euros more in taxes and social security contributions as a result of revenue-generating measures by the government. However, a change in the micro burden does not necessarily coincide with the income effects perceived by households and businesses. This is because such a change may be accompanied by measures on the public spending side which may also have an effect on household purchasing power or business profit.



**Table 4.2 Changes in micro burden<sup>a</sup>, 2008-2001**

	Baseline	CDA	PvdA	VVD	SP	GL	D66	ChrU	SGP
billion euros, 2007 prices									
Total change in micro burden	3½	½	0	- 5	- 1¼	- 1	- 5	0	1
Divided by payer									
Businesses	¼	0	1¼	¼	4½	½	1¼	0	¾
Households	3¼	½	- 1¼	- 5¼	- 5¾	- 1½	- 6¼	- ¼	¼
Divided by assessment base									
Environment	0	½	1½	¼	2¼	13¾	1½	1	¼
Labour and income	4¾	- 1	- 4	- 6½	- 7	- 19½	- 7½	- 3	0
Capital and profit	- 1¼	½	2½	¾	3½	4¾	½	¾	½
Other	0	½	0	¾	¼	¼	¼	1	¼

<sup>a</sup> The "Baseline" column shows the increase in the micro burden in the cautious scenario. The increases in the micro burden in the election platforms come on top of that. All amounts are in 2007 prices. The deflator is the price of GDP.

## 4.2 Macroeconomic effects

Table 4.3 shows the macroeconomic effects of the parties' election platforms. The estimated effects of the policy packages come on top of the cautious scenario figures listed in the first column. Because greater uncertainty attaches to macroeconomic developments over the medium term than to the calculated effects of the proposed measures, the CPB is less specific on the scenario figures than on the effects of the policy measures. That is why the basic scenario figures are rounded to quarters of a percentage point and the policy effects to tenths.

### The effect of the party programmes on structural GDP

Table 4.3 shows, among other things, the impact of each party programme on annual economic growth during the next government's term of office. The figures indicate by how many more percentage points the economy will expand per year in 2008-2011. Multiplying the figures by four gives a programme's impact on GDP for 2011. A policy package not only affects economic growth during the period in question, but also in the following years, because the structural effect on GDP has not yet been fully realised by 2011. For this reason the increase in GDP is also calculated over the longer term, when all the adjustment processes have been completed. This is the increase in structural GDP due to a party programme. Dividing the increase in the structural GDP figure by four gives the effect on annual structural growth during the next government term.

By definition the output gap is equal to the difference (in %) between the actual and structural GDP. Because the level of the output gap (i.e. the performance of the economy) cannot be predicted this far ahead, this key figure has been set at nil for 2011 in the cautious scenario. However, the policy measures included in an election platform may cause the output gap to come out higher or lower by 2011. If the measures boost actual GDP more than structural GDP, the output gap will be positive in 2011. In that case an unfavourable effect on economic growth will have to be factored in after 2011. Conversely, if the measures boost actual GDP less than structural GDP, then the output gap will be negative in 2011. In that case a favourable effect on economic growth can be expected after 2011.

Under the CDA's policy package, economic growth will come out 0.1 percentage point higher than in the cautious scenario. The CDA plans to restrict employment growth in the public sector by 0.5 percentage points compared to ¼% growth in the basic scenario, which means that jobs will be lost. The proposed strengthening of market forces in the health service will boost labour productivity growth in this sector. Hence employment in the health service will also increase by less than in the basic scenario. However, the jobs total in the market sector will increase faster than in the basic scenario, because the party's policy package has a positive impact on output and restrains pay increases to some extent. On balance, total employment will increase by more than in the basic scenario, so that the unemployment rate will come out slightly lower by 2011. The effect of the CDA's programme on structural economic growth during the next government's term of office is broadly the same as the effect on actual growth. Structural growth is pushed upwards because the party's measures make it more attractive for benefit recipients to accept paid work, as evidenced by the decline in the replacement rate.

The budgetary policies proposed by the PvdA will stimulate consumption growth. The party's measures will increase public spending, including the outlays on education, by 0.2 percentage points more than in the basic scenario. The advocated measures will also boost private consumption growth. As a result, economic growth will come out 0.1 percentage point higher. The favourable effect on employment means that the unemployment rate in 2011 will be below that in the basic scenario.

The PvdA's programme will not affect the structural economic growth rate during the next government term. It is true that the measures have a positive impact on the labour supply, but this is offset by an increase in the equilibrium unemployment rate. The latter development is due to an increase in the replacement rate which implementation of the policy proposals entails.

The VVD opts for reducing non-pay labour costs ("wedge") and linking social security benefit levels to the increase in prices rather than contractual pay rates. This supply-oriented policy depresses pay trends and implies that benefits will rise by less than contractual pay. But because the VVD allocates significant resources to cut taxes and social security contributions, this policy mix still has a favourable effect on private consumption. For that reason economic growth comes out 0.1 percentage point higher than in the basic scenario. The VVD opts for a restriction on employment in the public sector and the health service. Against this, the party's policy package has a definite favourable effect on employment in the market sector. On balance the package stimulates employment growth. Hence the unemployment rate will come out lower than in the basic scenario by 2011.

The VVD's policy package translates into a structural economic growth rate in the next government term that is 0.3% percentage points higher than in the basic scenario. The reduction of the "wedge" leads to a small increase in the labour supply. Furthermore, the smaller wedge

and the decoupling of benefits and contractual pay rates have a downward effect on the equilibrium unemployment rate.

The SP opts for strong growth in employment in the public sector and the health service. It also calls for higher income transfers to households and higher benefits in kind. The consequent boost to household income growth leads to a steeper increase in private consumption. Under these policy proposals, economic growth will increase by 0.1 percentage point compared to the basic scenario. More specifically, employment in the public sector and the health service will increase by more than in the basic scenario. As the SP's policy package also has a favourable effect on employment growth in the market sector, the unemployment rate in 2011 will be appreciably lower than in the basic scenario.

The SP's programme will not affect the structural economic growth rate during the next government term. It is true that labour supply growth will increase, but so will the equilibrium unemployment rate. The party's commitment to reverse the cut in the corporation tax rate will have an unfavourable effect on this measure of unemployment.

<b>Table 4.3 Macroeconomic effects of the parties' election platforms<sup>a</sup>, 2008-2011</b>								
	Baseline	CDA	PvdA	VVD	SP	GL	D66	ChrU
	% per year	effect on annual growth in percentage points						
<b>Production and consumption</b>								
Gross domestic product	1¾	0.1	0.1	0.1	0.1	0.1	0.1	0.0
Structural GDP	2	0.1	0.0	0.3	0.0	-0.4	0.3	-0.1
Private consumption	1¼	0.2	0.3	0.1	0.4	0.1	0.3	0.0
Public spending	1½	-0.2	0.2	-0.2	0.2	0.4	-0.1	-0.1
<b>Pay and prices</b>								
Pay rates, market sector	3½	-0.2	0.1	-0.8	0.1	-0.3	-0.6	0.0
Consumer price index	1½	0.0	0.0	-0.1	0.2	0.5	0.0	0.1
<b>Labour market</b>								
Employment in labour years	¼	0.1	0.1	0.1	0.1	0.2	0.2	0.1
of which market sector	-¼	0.2	0.2	0.3	0.0	0.2	0.3	0.0
public sector	¼	-0.5	0.0	-0.6	0.5	0.2	-0.2	0.5
health service	2	-0.1	0.1	-0.6	0.3	0.5	-0.1	-0.1
Labour supply in labour years	¼	0.0	0.1	0.0	0.0	0.1	0.1	0.0
	2011 level, in %	effect on 2011 level in percentage points						
Unemployment	4½	-0.1	-0.3	-0.2	-0.4	-0.5	-0.3	-0.3
Equilibrium unemployment	4½	-0.1	0.1	-0.5	0.2	0.3	-0.5	0.0
Output gap	0	0.1	0.6	-0.8	0.5	1.9	-0.7	0.4
Replacement rate	67¾	-0.3	0.5	-2.5	-0.3	-2.0	-2.4	-0.3
Labour share in enterprise income	78	-0.1	0.0	-0.6	-0.1	0.2	-0.5	0.1

<sup>a</sup> No effects are given for the SGP programme, because, in line with this party's wishes, only its programme's ex ante budgetary effects were calculated.

As is to be expected, the GL has an ambitious environmental programme, with high taxes on polluting activities. The party wants to raise the corporation tax compared to the basic scenario. It also calls for sweeping changes to the tax system and the state pension scheme.

Implementation of the party's proposals will increase economic growth by 0.1 percentage point compared to the basic scenario. The party wants to create more jobs in the public sector and the health service. This policy package also has a favourable effect on employment growth in the market sector. Hence the unemployment rate in 2011 will be appreciably lower than in the basic scenario.

The GL's policy proposals will depress structural economic growth by 0.4 percentage points during the next government term. The increases in environmental taxes and the corporation tax will lead to an increase in equilibrium unemployment. This increase should remain in bounds, however, because the party wants to introduce an earned income tax credit (EITC) to make it more attractive for benefit recipients to accept paid work.

A proviso must be entered here. Because of both the large number of measures proposed by the GL and their complexity, it is possible that the CPB's models cannot accurately evaluate the far-reaching policy changes included in this party's programme.

D66 advocates substantial additional outlays for education. This party also wants to strengthen the supply side of the economy by reducing the tax and social security contribution burden significantly and by making it more attractive for benefit recipients to accept paid work. The tax relief proposed by D66 and the decline in the replacement rate resulting from its proposals will have a downward effect on pay increases. Private consumption growth will still accelerate, however, because the party calls for considerable tax cuts. D66's policy proposals will increase economic growth by 0.1 percentage point compared to the basic scenario. The party calls for some restrictions on employment in the public sector and the health service. Against this, its policies clearly stimulate employment in the market sector. On balance, employment will increase by more than in the basic scenario, so that the unemployment rate will come out lower by 2011.

D66's policy package will boost structural economic growth by 0.3 percentage points during the next government term. This is mainly due to the fact that the proposals will lead to a slightly higher labour supply and a lower equilibrium unemployment rate.

The ChrU opts for strong growth in employment in the public sector and for some increases in taxes. Among the changes compared to the basic scenario, the party proposes an increase in indirect taxes, including excise duties on alcohol. Implementation of the party's proposals will have virtually no effect on economic growth. But the policy package gives a boost to employment growth, so that the unemployment rate in 2011 will be lower than in the basic scenario.

The ChrU's policy package will depress structural economic growth somewhat during the next government term, mainly because of the proposed increase in indirect taxes. The equilibrium unemployment rate will rise only marginally, however, because the hike in indirect taxes is partly offset by a decline in the replacement rate.

In the cautious scenario the EMU balance comes out at 1.0% of GDP in 2011. Table 4.4 shows the EMU balance in 2011 on the basis of the implementation of the various party programmes. A larger EMU surplus in 2011 is possible if a party opts for net cuts and savings and/or a net increase in taxes and social security contributions. This leads to an ex ante improvement in the EMU balance. The actual EMU balance can also be influenced by the macroeconomic effects of the policy proposals. These are known as "positive knock-on effects". Not all of the macroeconomic effects of the parties' policy measures will become evident during the next government term. Some of them will only become evident in the following years. These "pipeline effects" of policies will continue to affect the actual EMU balance after 2011. These pipeline effects are not included in the estimated actual EMU balance for 2011, but they are included in the structural EMU balance expected for that year.

The structural EMU balance comes out at 0.9% of GDP in 2011 in the cautious scenario. The policy packages of nearly all parties result in a smaller structural EMU surplus in 2011. The expected structural EMU surplus ranges from 1.0% of GDP (CDA) to 0.3% of GDP (SP, GL).

The robust EMU balance comes out at ½% of GDP in 2011 in the cautious scenario. Three of the party programmes – CDA, VVD, ChrU – result in broadly the same figure for 2011. The programmes of the PvdA, SP, GL and D66 result in a lower robust EMU balance in 2011.

<b>Table 4.4</b>	<b>The public finances, 2011</b>							
	CDA	PvdA	VVD	SP	GL	D66	ChrU	SGP
	in % of GDP							
EMU balance, basic scenario	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Ex ante improvement in EMU balance	0.0	-0.5	-0.3	-0.8	-0.9	-0.7	0.0	-0.2
Positive knock-on effects	0.0	0.5	-0.2	0.5	1.3	0.1	0.0	
EMU balance	1.1	1.0	0.5	0.7	1.4	0.4	1.1	
Structural EMU balance, basic scenario	0.9	0.9	0.9	0.9	0.9	0.9	0.9	
Ex ante improvement in EMU balance	0.0	-0.5	-0.3	-0.8	-0.9	-0.7	0.0	
Structural positive knock-on effects	0.0	0.1	0.2	0.2	0.3	0.5	-0.2	
Structural EMU balance	1.0	0.6	0.9	0.3	0.3	0.7	0.8	
Robust EMU balance	0.6	0.2	0.5	0.0	-0.2	0.3	0.4	

### 4.3 Towards sustainable public finances

The Dutch population is gradually ageing, and the share of over-65s in the total population will increase significantly over the coming decades. This ageing is good news for individual citizens, because they live longer and in better health, but it also puts pressure on the sustainability of the public finances.

There are two ways to achieve sustainable public finances by the end of the next government's term of office. The first way is to implement policy adjustments which raise the robust EMU balance by 1½% of GDP (or 9 billion euros) by 2011. The second way is to take measures during the next government term which will offer a prospect of an improving robust EMU balance after 2011 as well. This can be the case if measures are implemented gradually, or if measures have an effect on government revenues or expenditures that increases as the population ages. In the first case, the measures will be announced now, but the implications will partly be felt after 2011. The budgetary problem is then pushed into the future to some extent. If both ways improve the sustainability of the public finances by less than 1½% of GDP, then further policy adjustments will be required after 2011 to achieve sustainable public finances.

Various elements of the parties' election platforms help to make the public finances sustainable through effects which occur after 2011. The main ones are set out below, for each party:

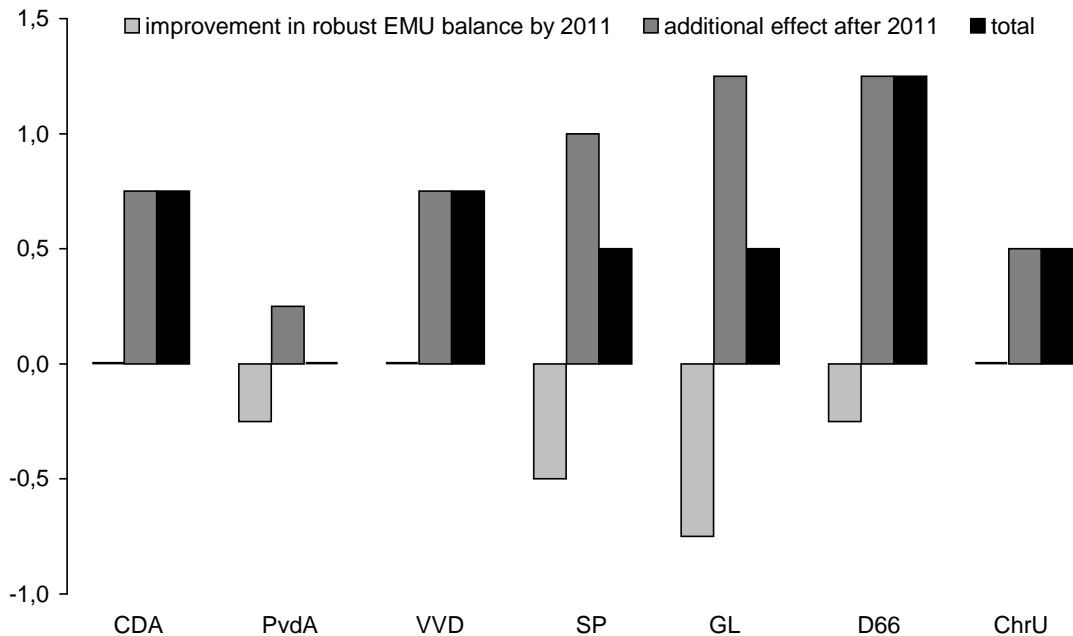
- CDA: gradual individualisation of the general tax credit (which will make it more attractive for non-working partners to get a job<sup>8</sup>), and the structural effects of the introduction of more market forces into the health service;
- PvdA: phased introduction of a tax on the supplementary pension for over-65s;
- VVD: gradual individualisation of the general tax credit, linking benefit levels (except the basic state pension) to price increases rather than contractual pay rates, and the structural effects of measures which reduce health spending and welfare benefit claims;
- SP: gradual individualisation of the general tax credit, and in due course abolition of mortgage interest relief;
- D66: gradual individualisation of the general tax credit, gradual raising of the official retirement age to 67 years, and (over the very long term) abolition of mortgage interest relief coupled with the abolition of the transfer tax;

<sup>8</sup> The general tax credit is a reduction of income tax liability. At the moment, non-working partners are also eligible for this tax credit. Individualisation of the general tax credit implies its abolition for non-working partners. They can only retain it if they take up paid employment.

- GL: reform of the tax system, including abolition of the general tax credit, gradual introduction of a system of accumulating state pension rights on the basis of earned income, and gradual conversion of mortgage interest relief into a 1.2% subsidy of the mortgage debt;
- ChrU: phased abolition of the reduced income tax rate for over-65s;
- SGP: phased abolition of the reduced income tax rate for over-65s.

Figure 4.1 shows to what extent the party programmes improve the sustainability of the public finances. If a party advocates measures whose effects will only become evident after 2011, they have been left out of consideration here. None of the policy packages offers a prospect of fully sustainable public finances. In other words, as things stand at the moment, the implementation of each programme will require further policy adjustments after 2011. D66's programme brings the greatest improvement in sustainability (1¼% of GDP). However, all of this improvement is achieved after 2011, and implementation of this programme will actually lead to a deterioration of the robust EMU balance by 2011. Two party programmes – CDA, VVD – improve sustainability by ¾% of GDP, entirely through effects which occur after 2011. Three party programmes – SP, GL, ChrU – improve sustainability by ½% of GDP, mostly through effects after 2011, and in the case of the first two after an initial deterioration by 2011. The PvdA's programme does not lead to an improvement in sustainability on balance. It leads to a deterioration of the robust EMU balance by 2011, which is compensated fully by a favourable effect on sustainability after 2011.

**Figure 4.1 Improvement in the sustainability of the public finances (in % of GDP)**



In the case of the SGP's programme, only the ex ante budgetary effects have been calculated. For this reason only a qualitative judgement can be made concerning this programme's contribution to improving the sustainability of the public finances. This party's programme will probably lead to a small improvement in sustainability, although this will not be achieved until after 2011.

In so far as the political parties are able to improve the sustainability of the public finances through measures which have a favourable effect on the robust EMU balance by 2011, the accompanying purchasing power effects are shown in the purchasing power figures presented in the next section. The purchasing power effects of measures which help to improve the sustainability of the public finances after 2011 will, however, not be considered here. If there is still a sustainability deficit in 2011, further policy adjustments will be required in the following years. These policy adjustments will of course have consequences for purchasing power trends after 2011.

#### **4.4 Purchasing power**

The party programmes affect purchasing power through various measures, such as changes in the tax system, in the social security sphere, and in the financing of healthcare services. The effect of these measures on pay rates and prices is also important for the development of purchasing power. Table 4.5 shows the changes in purchasing power in the cautious scenario, and then in the same scenario including the effects of the party programmes. The purchasing power figures take account of different forms of income, such as from paid employment, benefit payments, pensions, interest income and capital gains. The figures relate only to employees, public sector workers, benefit recipients and pensioners. Together these groups account for 85% of all households in the Netherlands. The purchasing power effects for the self-employed, directors / majority shareholders, students and others are not considered here.

Purchasing power will increase for most households, but not equally across the board. The average purchasing power increase and the redistribution effects differ from party to party, as table 4.5 shows. This table shows the median purchasing power increase for several categories of households. "Median" means that, in each group, 50% of households will experience a lower increase in purchasing power than the figure shown, while the other 50% will be better off. Households have been divided on the basis of three criteria: the level of income, the source of income, and the situation of the household.

The first block of figures shows the purchasing power figures for three groups of households with different incomes. The first group includes all households with gross incomes up to 150% of the statutory minimum wage. The highest gross incomes in this group of households will be



24,000 euros in 2007. The second group includes households with incomes between 150-400% of the statutory minimum wage. The gross incomes of these households will range from 24,000-64,000 euros in 2007. The third group includes households with incomes of more than 400% of the statutory minimum wage. In most party programmes, households from the lowest of the three income groups fare less well than higher income households. With the CDA and ChrU, however, the purchasing power of this group increases by as much as that for households with incomes between 150-400% of the statutory minimum wage. With the ChrU, this group also fares as well as the highest income group. Under the programmes advocated by the PvdA, GL and SP, households from the middle income group enjoy the greatest increase in purchasing power. With the VVD, households from the highest income group fare better than lower income households. With the SP and GL, the opposite is the case. With D66, households from the highest income group enjoy the same purchasing power increase as households from the middle income group.

Those households in which the main earner has a job will enjoy a higher purchasing power increase with the VVD and GL than households whose main earner is a benefit recipient. Under the policy proposals of the other five parties, both these groups of households will enjoy the same purchasing power increase. Households whose main earner is older than 65 will see their purchasing power increase by less than households whose main earner is younger than 65. This is due in part to the increase in the labour tax credit proposed by many parties.

	Baseline	CDA	PvdA	VVD	SP	GL	D66	ChrU
	change in median purchasing power, in % per year							
< 150% of statutory minimum wage <sup>b</sup>	¾	1	1	1	1½	1¾	1	1
150%-400% of statutory minimum wage	¾	1	1¼	1¼	1¾	2¼	1¼	1
> 400% of statutory minimum wage	1	1¼	¾	1½	¼	1¼	1¼	1
Main earner in paid employment	1	1¼	1¼	1¼	2	2¾	1¼	1
Main earner benefit recipient	1	1¼	1¼	¾	2	1¾	1¼	1
Main earner over 65	½	¾	¾	1	1	¾	¾	¾
Single earner	1	1	1	½	1¾	1	¼	1¼
Double earner	¾	1	1¼	1¼	1¾	2¼	1½	1
Single person	¾	1	1	1	1½	1¾	1¼	¾
All households	¾	1	1	1¼	1½	2	1¼	1

<sup>a</sup> The "Baseline" column shows the purchasing power changes in the cautious scenario. The other columns show the changes in the cautious scenario plus the effects of the party programmes.

<sup>b</sup> The income limits for the over-65s are set at 70% of the gross incomes indicated here.

The differences in purchasing power trends on the basis of household situation are relatively small under the party programmes of the CDA, PvdA, SP and ChrU. With the VVD and D66, the purchasing power of single earners develops less favourably than among other households, owing to the gradual individualisation of the general tax credit. With the GL, the purchasing power of double-earner and single-person households increases by more than that of single-earner households.

The table also shows the median purchasing power increase for all households considered here. This purchasing power increase amounts to ¾% in the cautious scenario. This figure comes out higher in all the party programmes. The increase in purchasing power for the median household ranges from 1% (CDA, PvdA, ChrU) to 1¼% (VVD, D66), 1½% (SP) and 2% (GL). However, the favourable development of purchasing power with the GL and SP is offset in part by a less favourable structural position of the public finances in 2011. This because measures to support purchasing power of course carry a price tag.

Table 4.5 provides no information on the distribution of purchasing power changes within the general figures. Hence it does not show that specific groups of households will experience an appreciable reduction in their purchasing power. This is true in particular for households with high incomes and high capital assets under the GL's and SP's programmes. These households will face a considerable increase in their taxes and social security contributions.

## **4.5 Knowledge policy**

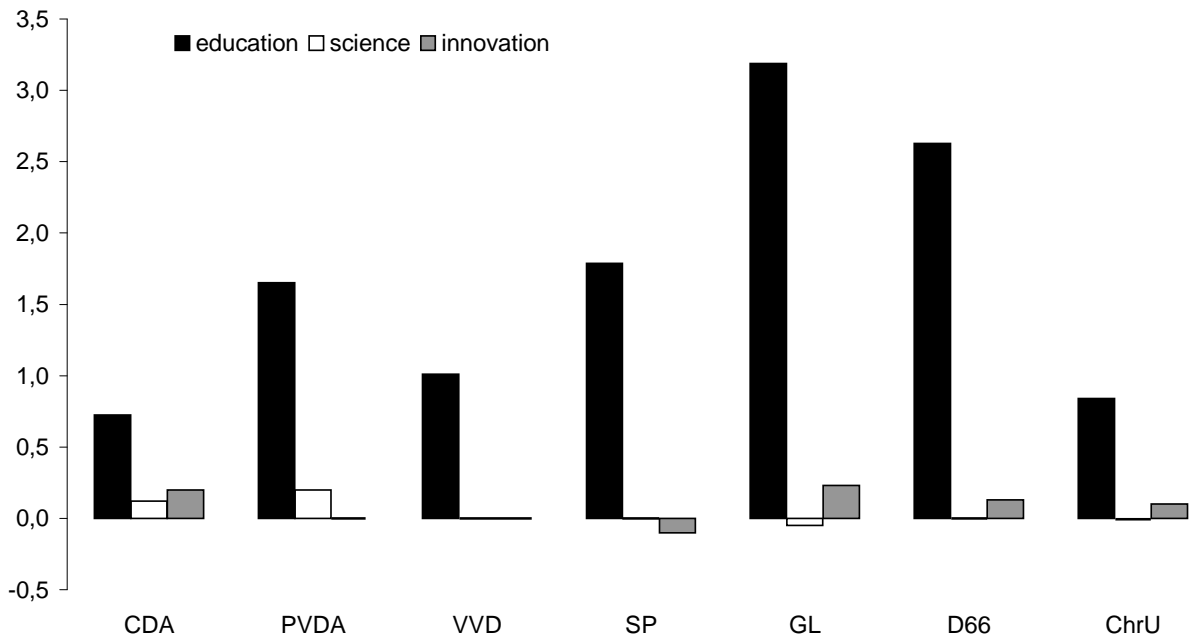
Education, science and innovation are important sources of wealth and prosperity. The parties devote considerable attention to this area – collectively called “knowledge policy” – in their election platforms. This year's CPB analysis of the economic effects of the election platforms evaluated the benefits of knowledge policy for the first time. However, it was not yet possible to quantify these benefits and incorporate them into the macroeconomic effects outlined in section 4.2.

Figure 4.2 shows the net additional spending commitments on knowledge policy advocated by the parties. The parties call for additional resources for education in particular. Within education, the parties often focus attention on the same themes, for instance the quality of teachers, drop out rates among vocational secondary education (MBO) and pre-vocational secondary education (VMBO) pupils, and the financing of higher education studies. Parties differ in the extent to which and the way in which they want to address these themes. The total net additional spending commitments in the area of knowledge policy range from 1 billion euros (CDA, VVD, ChrU) to 3½ billion euros (GL). In terms of GDP, the additional outlays

range from 0.2% to 0.6%; in terms of increases on the current allocations to knowledge, they range from 3% to 10%.

The CPB has evaluated the proposals in the knowledge policy sphere for their contribution to national welfare. Proposals are deemed to be “promising” if empirical research suggests that they will have a favourable effect on welfare, that is to say, if the benefits exceed the costs. For instance, research shows that additional training for teachers is promising, as are early and pre-school education programmes. An austerity measure can also be “promising”. An example would be the introduction of a graduate tax to pay for the master stage in academic education. Figure 4.3 shows the total volume of promising proposals for each party. The GL’s and D66’s programmes include promising proposals of more than 2 billion euros and nearly 2 billion euros respectively. Each of the other party programmes include promising proposals of between ½ billion and ¾ billion euros.

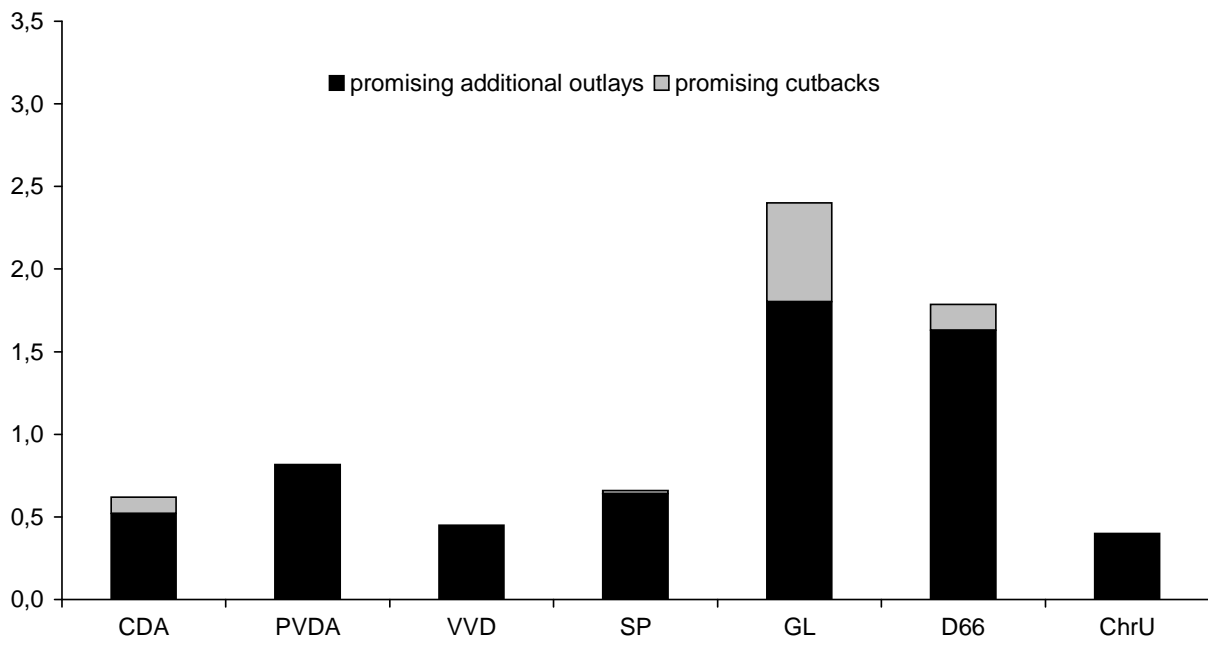
**Figure 4.2 Net additional spending on knowledge policy, 2011 (in billion euros, 2007 prices)**



Proposals are deemed to be “unpromising” if empirical research shows that they have an unfavourable effect on national welfare. The parties make virtually no unpromising proposals. Only the SP and GL make proposals of this kind, each for less than ¼ billion euros.

For many of the knowledge-related measures it is not clear whether they are promising or otherwise. They may well have a favourable effect, or they may have an unfavourable effect on welfare; however, little or nothing is known about this. The net additional spending commitments in this category range from around ½ billion euros (CDA, VVD, ChrU) to 2 billion euros (GL).

Figure 4.3 Promising proposals for knowledge policy, 2011 (in billion euros, 2007 prices)



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