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**Van woord tot akkoord. Een analyse van de partijkeuzes in CPB-
doorrekeningen van verkiezingsprogramma's en regeerakkoorden,
1986-2017**

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Summary in English

Title PhD thesis

From Words to Agreement; An analysis of the parties' choices in the assessments of election manifestos and coalition agreements by the CPB Netherlands Bureau for Economic Policy Analysis, 1986-2017.

Summary

Since 1986, the CPB Netherlands Bureau for Economic Policy Analysis (CPB) performs and publishes assessments of election manifestos and coalition agreements, before and after the House of Representatives elections in Netherlands. Limited empirical research has been done on the effects of this unique Dutch tradition. General underlying assumption is that the assessments discipline political behavior, especially the tendency to make unrealistic promises to attract votes, and improve the financial-economic quality of election manifestos and coalition agreements, especially their realism and elaborateness. Furthermore it is assumed that the neutral CPB's assessment of election manifestos – over time given the title Charted Choices (CC) – improves the efficiency of government formation, because the negotiations basically will be a perpetuation on this previous assessment and it prevents time-consuming political discussions about the realism of financial-economic numbers.

This PhD thesis analyses empirically the relationship between the parties' choices in the CPB's assessments of the election manifestos and the CPB's assessments of the coalition agreements over the period 1986-2017. The used dataset, described in Chapter 5, comprises nine election years (1986, 1989, 1994, 1998, 2002, 2006/2007, 2010, 2012, 2017). The thirteen parties that participated in CC at any time during the period under review and whether or not in the successive government are the People's Party for Freedom and Democracy (VVD), the Christian Democratic Appeal (CDA), the Labour Party (PvdA), Democrats 66 (D66), Green Left (GL), the Socialist Party (SP), the Christian Union (CU), the Reformed Political Party (SGP), the Party for Freedom (PVV), the Democratic Political Turning Point (DPK), DENK (DENK), For the Netherlands (VNL) and the Liberal Party (VP). The collected data show these parties' choices on the ex ante budgetary effects (public expenditures and tax and premium burdens), the ex post macroeconomic effects and the ex post purchasing power effects (real disposable income). These aggregated variables reported by the CPB facilitate a reliable and consistent comparison of the parties' choices before and after the elections.

The main research question of the PhD thesis is: *What is the relationship between the political parties' choices in the CPB's assessment of the election manifestos and the subsequent CPB's assessment of the coalition agreement, and how can this relationship be explained?* The objective is to indirectly achieve a better understanding of the political behavior in the 'black box' of government formation, by deducing this behavior from the structural similarities and structural differences between both research objects. Little empirical information is available on the (internal) processes of the assessments, as the working agreement between the CPB's civil service and the political parties is that interim (draft) calculations or correspondence are treated confidentially and are never made public. The CPB only publishes the assessments after explicit approval of the political actors.

To understand and explain the relationship, Chapter 2 of the thesis describes the theoretical context of the CPB's assessments. An important factor in this context is the Time Dimension (T). It is essential

that CC is made during the campaign period before the election date (T-1), on which there are elections that determine the new political conditions (T=0), and the assessment of the coalition agreement comes into being during the government formation period under these new political power ratios (T+1). Essential actors in the context are the Politicians – namely the House of Representatives' MP's who participate – and the Civil Service - namely the financial-economic civil servants who work at the CPB, the Ministry of Finance, other relevant departments and at the Dutch Central Bank. The Politicians and the Civil Service have their own rationality; they act in their own environment and pursue other goals. But they both participate strongly in the agenda-setting process of the CPB's assessments, whereby Politicians are likely to behave according to political economy theory and the Civil Service according to civil service influence theory. During the process, the actors make choices also motivated by a particular Financial-Economic Situation, which is provided for in T-1 by the CPB's MLT economic outlook with forecasts for economic growth, unemployment or government budget and which in T+1 can be updated by the CPB through releasing a renewed outlook.

In both assessments, the Civil Service of the CPB, the Ministry of Finance, the other relevant departments and the Dutch Central Bank perform a rationalization role in relation to the participating Politicians of the House of Representatives. The CPB's activities are aimed at providing neutral financial-economic knowledge on which the political policy makers can base their decisions. The substantive development of the CPB's assessments over the period 1986-2017 is a clear expression of the disciplining of political rationality through introducing economic rationality, scientific rationality and legal rationality. The working process has been gradually extended with economic tests, scientific tests and legal tests that mainly rationalize and limit the budget proposals of parties. Interesting is how this Civil Service rationality affects the Political rationality, which in the campaign period (T-1) probably differs from political rationality during the formation period (T + 1). In T-1, CC is a campaign document, which participating parties can utilize to distinguish themselves and win extra votes, and a negotiation document, which parties can adopt to strengthen their starting position in the formation by making extreme and diverging choices. In T+1 however, the assessment is more likely an implementation document, containing realizable and elaborated policy proposals for which the new government parties take responsibility, and a budget document, showing the budgetary, macroeconomic and purchasing power effects of the policy measures in the coalition agreement and at the same time the agreed political financial-economic boundaries.

In Chapter 3 the basic assumption is that the political rationality (Politicians) uses the assessments primarily as campaign document and negotiation document. The strongly increased number of participating parties in CC suggests there are political motives in play, like electoral gains or access to the formation. In 1986, three of the thirteen parties (23%) that were in the House of Representatives at the time and were eligible for re-election participated, but in 2017 eleven of the fourteen parties (79%). The strong nominal rise as well the strong relative increase rejects the statement that the higher participation rate is simply caused by a rising number eligible parties since 1986. Also, parties who newly participate, will do again so in the next election year - only exception is the PVV which refrained in 2017 after participating in CC in 2010 and 2012. This sustainability is remarkable, as participation is voluntarily - there was never a legal obligation as recently in Australia and Belgium – and requires considerable time-consuming commitment of politicians and their employees.

Social psychological theory about 'test situations' might explain the advantage of CC participation. Politicians are associated with prejudices and stereotypes by voters, media and fellow parties, such as unreliability and negative feelings. CC participation might be a test situation – the willingness to give full insight into how a party finances its election manifesto and has its economic consequences assessed by a neutral referee – through which parties can obtain a more reliable and positive image. A similar explanation offers economic theory about 'signaling': an agent can give a signal to a principal to bridge their mutual information asymmetry. Voters on the electoral market have an information backlog, as they are not sure which parties will keep their promises after the elections. CC participation is a signal to voters, media and other parties that the party is credible. Moreover, politicians need credibility on the electoral market to achieve good election scores, but also on the formation market. Parties that seek access to the upcoming formation have information asymmetries with respect to each other too. Probably, politicians who consider themselves potential coalition partners but are never invited to the formation table, experience an incentive to eliminate this information backlog. Allowing the CPB to assess their election manifestos signals credibility and reliability and is investing in 'political capital' towards the other parties. The empirical analysis indeed shows that CC participation seems to limit downside electoral risks and increases the chance of invitation to the formation (53% on average, although it is obviously higher for large parties and lower for small parties). But there is no evidence that participation results in (extra) voting gains.

The CPB has also gained a stronger position during the formation period and after the government formation is completed. Over the period 1986-2017 the CPB's assessment of the coalition agreement was always published, at the request of the informer and with explicit approval of the negotiating parties. From the perspective of political rationality, this is understandable: the disclosure signals realizability, financial-economic soundness and transparency. For the new coalition parties these signals add value towards voters, media and opposition parties, looking ahead to the first governmental debate about the coalition agreement with the House of Representatives.

In Chapter 4 the basic assumption is that the civil service rationality (Civil Service) uses the CPB's assessments primarily as implementation document and budget document. These institutionalized assessments may provide the opportunity for Dutch financial-economic civil servants to leave a strong mark on CC and the coalition agreement. This is the case because the CPB in general, being a knowledge institute, and its assessments turn out to be very important for finding consensus in political decision-making in the Netherlands. More specific, CC has a strong position in the budget process towards the elections and the new coalition agreement, since the CC serves as the starting negotiating document in the formation. Presuming that the civil service has a desire for a coalition agreement that it is a realizable and elaborated, this offers clear advantages. Because all calculations and policy measures are unequivocally and clearly presented per party, this makes political discussions on these matters unnecessary and finding political consensus easier. From a Civil Service perspective the CPB's assessments are institutions that, by disciplining politicians on efficiency and effectiveness, remove the irrationality of the actor Politics which usually would result in market failure and deadweight loss. They prohibit the political rationality to present too rosy figures or vague budget texts, only for the goal of attracting electoral votes or reaching a political consensus. Altogether, the CPB's assessments supply the civil service rationality with his desired greater influence over the political decision-making process towards a new coalition agreement.

But the assessments are not only important institutions to arrive at a realizable and elaborated coalition agreement. Civil servants are also supportive due to the general assumption that the CPB's assessments result in lower negotiation costs for the political parties that discuss a new coalition agreement (efficiency motive). Empirically, however, there is no convincing direct evidence that the CPB's assessments significantly reduce the negotiation costs of formations. Although formation periods have been around 5% shorter since 1986, this is logically (partly) explained by the declining number of negotiating coalition parties in Dutch formations over time. More striking is that the final formation phase (with the last informer) takes around 95% days longer since the introduction of the CPB's assessments. The reason may be that over time the political negotiators started to negotiate more in detail by using CC, that more time-consuming (interim) assessments of draft agreements are made by the CPB, and the negotiators respond to these interim assessments by renegotiations: these are all political negotiation costs that require extra formation days. Logically, there are also higher civil servants' negotiation costs during a formation period since 1986, because CPB's staff is asked to increase its efforts, which also requires more formation days than before.

Furthermore, the Civil Service rationality endorses the CPB's assessments also for other advantages. They supply the Civil Service with more boundary power (framework-setting position) and steering influence (advisory position). For example, one very influential civil service instrument with respect to the CPB's assessments is the economic outlook (MLT). The CPB deliberately determines this outlook, because politically motivated forecasting biases are to be avoided. The economic outlook is of great importance for the content of the influential civil servants' Budgeting Framework Commission (BFC) report and for the subsequent choices of parties in CC, as it acts as the neutral financial-economic baseline for decision-making. Thereby, because Dutch politicians and civil servants are committed to make policy decisions on the most up-to-date economic outlook, the MLT forecast can be independently updated by the CPB on basis of new financial-economic insights or new government policy choices and the updated outlook will then be incorporated in the CPB's assessment of the coalition agreement. The assessment of the coalition agreement is the final part of the strong informative, framework-setting and advisory position of civil servants in the Dutch budget process. Due to the important role of the MLT economic outlook and the increasing number of civil service's rational tests, budgetary boundaries and policy menus limiting political decision-making, their frame-work setting position is strengthened. Additionally, the institutionalization may lead to a more influential advisory position for financial-economic civil servants, for example the BFC.

In Chapter 6, the influence of these BFC's reports and the MLT economic outlook updates on the parties' choices in coalition agreements is empirically tested. These civil service outputs prove to be influential guidelines for parties in the assessments of parties' manifestos and coalition agreements. The correlation between the BFC's advice for the government budget in the medium term and the coalition agreement for the period 1989-2017 is $r = 0.87$. In line with the election manifestos, coalition agreements show that parties, especially in a bust (negative output gap), follow the direction of the SBR advice - balance improvement - only not fully. In a boom (positive output gap), the parties explicitly fail to follow the direction of the BFC' advice - balance stabilization - because politicians then opt broadly for government budget deterioration. Because of this political group think, Dutch fiscal policy is almost always procyclical. The correlation between the output gap in the first year of the government term and the change in government budget in the coalition agreements is $r = -0.65$. The correlation between the output gap and the BFC' advice is also $r = -0.75$. Thereby it

appears that coalition agreements - regardless of the economic cycle - are less stringent or more expansive on the government budget than the BFC advises: over the period 1989-2017 the average level difference was 0.46%-point of GDP. As a result, Dutch fiscal policy in busts becomes less pro-cyclical than advised by the BFC and in booms more pro-cyclical than advised by the BFC.

Additionally, the updates of the MLT economic outlook by the CPB regarding the government budget prove to be decisive for the parties' choices in coalition agreements. If the government budget forecast in an MLT update deteriorates, the negotiation formation parties are willing to make an extra budgetary effort that was not in the election manifestos, although this almost never results into full budgetary compensation for the deterioration. If the government budget forecast improves in an MLT update, parties are vice versa happily prepared not to (fully) implement their promised spending cutbacks and tax raises in CC. The correlation with intensified or weakened budgetary efforts is $r = 0.89$. A comparable relationship was not found whatsoever for the MLT economic outlook updates of the forecasts for the economic growth or the unemployment.

In general, Dutch coalition agreements decide to a limited larger government deficit or a smaller government surplus than the negotiating parties promised in the CPB's assessment of their election manifestos. Over the period 1986-2017, the government budget is on average 0.07%-point of GDP worse off. With regard to the unemployed labor force and economic growth, too, the coalition agreements are, on average, slightly less favorable than the parties' choices in CC. This suggests that the political formation negotiations result in a minimal loss of efficiency.

In Chapter 7, the parties' choices with regard to public expenditure over the period 1986-2017 are analyzed. The first observation is that prior to almost all elections there is remarkably broad political agreement on the direction – an increase or a decrease - in which Total Public Expenditure must develop. The agreement seems to be a derivative of the financial-economic situation: an expenditure increase in a boom and an expenditure decrease in a downturn. The weighted average of the formation parties in CC is also a good predictor for the total public expenditure decision in the coalition agreement with $r = 95$. However, it appears that the coalition agreements usually lead to a smaller reduction or a stronger increase in the total public expenditures than the weighted average in CC. The average level of difference is 0.39%-point of GDP. Government coalitions appear to have difficulty reaching agreement on expenditure constraints, but have less trouble to agree on expenditure increases.

Secondly, parties' choices regarding the specific expenditure categories show a mixed picture. In general, for each category the weighted average of the parties in CC is a good predictor for the direction of the choices in the coalition agreement: the vast majority of the correlations is much higher than $r = 0.6$. The big exception is the correlation of Education with $r = 0.42$. However, there are clearly differences in the level at which spending choices in CC are followed. When it comes to Social Security, coalition governments decide on average to 0.19%-point of GDP less expenditure reduction than the weighted average of the government parties in CC. Furthermore, the spending on Public Administration and Health Care in coalition agreements on average both appear to be 0.08%-point of GDP higher than the weighted average. Also, the expenditures on International Cooperation in coalition agreements are on average 0.06%-point of GDP higher than the weighted average in CC. Additionally, Environment often shows broad political agreement to increase spending, but here

average coalition agreements lead to an average of 0.03%-point of GDP more expenditure increase. Finally, Education is again the exception. Education is the only spending category which finally ends up with an on average 0.08%-point of GDP lower spending level than the weighted averages in CC.

Obviously, parties use CC primarily as a campaign document or negotiation document for the ideologically sensitive categories Social Security, Public Administration, Health Care, International Cooperation and Education. In the formation, parties seem then unwilling to implement their promises fully due to the direct stake of many voters or seem politically prepared to take some kind of negotiation loss. It seems less difficult to agree on the promised spending for the categories Defense, Security, Infrastructure and Environment, even though these subjects can also be perceived as ideological. The reason might be that these four issues are (quasi-)public goods, available to all citizens, and can be cut economically without affecting voters or interest groups too directly. Finally, it seems difficult to achieve the desired spending increases for Education in coalition agreements, despite the fact that almost all government parties are always in favor of extra expenditure in CC. Perhaps this is a price paid for not meeting the promised expenditure reductions on Social Security, Public Administration, Health Care and International Cooperation.

In Chapter 8, the parties' choices with regard to tax and premium burdens over the period 1986-2017 are analyzed. The first observation is that the weighted average on the Total Tax and Premium Burden of the parties in CC is a good predictor for the direction of the coalition agreement with $r = 0.87$. However, coalition agreements in general decide to less reduction or a stronger increase in the total tax and premium burden than the weighted average of the government parties in CC. The average difference in level is 0.38%-point of GDP. Government coalitions are struggling to reach agreement on a lower tax burden, but it takes them less effort to decide on a higher burden. Of course, it is likely that there is some kind of relationship with the public expenditure decisions.

Secondly, parties' choices regarding the specific burden categories show a mixed picture. In general, the weighted average of government parties in CC is a good predictor for the choices in the coalition agreement: the large majority of correlations is considerably higher than $r = 0.6$. But there are significantly lower correlations (Equity and Profits) and there is one negative correlation (Tax Burden for Companies). There are also considerable differences in the level for some specific burden categories between CC and the coalition agreement - especially in the Tax Burden on Labor and Income and the Tax Burden for Households. Almost all parties always promise to reduce the burden on labor and income, but coalition agreements on average decide to 0.42%-point of GDP less tax relief than the weighted average of the parties in CC. Furthermore, parties most of the time want an increase in the tax burden on environmental pollution, but coalition agreements lead on average to 0.03%-point of GDP less increase. The same goes for the burden on Equity and Profits: very often parties propose an increase for this tax burden, but coalition agreements on average decide to 0.03%-point of GDP less taxation than the weighted average of government parties in CC.

The macro result is visible on the tax burden for Households and the tax burden for Companies over the period 2002-2017. Although almost all parties always propose a considerable reduction in the tax and premium burden of households, coalition agreements lead on average to 0.52%-point of GDP less tax relief than the weighted average of the government parties in CC. Often Dutch households are even faced with a tax raise. The opposite happens with the tax and premium burden for

companies. Although almost all parties in CC propose to increase this burden, coalition agreements lead to an average 0.04%-point of GDP less tax raise than the weighted average. Often Dutch companies receive a tax relief. Without the formation of 2002, the level of difference increases to 0.22%-point of GDP on average: the weighted average burden-increase of 0.13%-point of GDP for Companies transforms into a tax reduction of 0.09%-point of GDP. The trend in coalition agreements is that companies receive tax relief while the election promises entailed an increase in company taxes, which contrast with the decisions on the burden of households who, unlike the election promises, are faced with less tax relief or an additional tax increase.

In Chapter 9, the parties' choices with regard to purchasing power over the period 1998-2017 are analyzed. The first observation is that the weighted average on purchasing power of All Households in CC is a good predictor for the direction of the coalition agreement with $r = 0.93$. The average level difference is 0.01%-point lower real disposable income, with this minimal negative deviation being mainly caused by the formation of 2002. When the financial-economic situation is stable, the promised general median real disposable income increase is almost always achieved.

Secondly, parties' choices regarding purchasing power over the period 1998-2017 based on the source of income, household composition or income category give a mixed picture. Often the weighted average of government parties in CC is a good predictor for the direction of the choices in the coalition agreement: the large majority of the correlations is significantly higher than $r = 0.6$. But there are also considerably lower correlations, among Low Incomes and Social Benefit Recipients. There are clear differences in the purchasing power level between CC and the coalition agreement too - especially among the Employed, Middle Incomes, High Incomes, Social Benefit Recipients and Two Income Households. Apparently the (multiple) reviewing of the purchasing power overviews during the formation always ends into a political desire to 'repair' the real disposable income distribution in the coalition agreement. Government parties appear to decide to an on average progressive redistribution compared to their weighted averages for purchasing power in CC.

Almost all parties always want an increase in the purchasing power for the Employed, but the coalition agreements lead on average to 0.13%-point lower real disposable income for this group than the weighted average of the government parties in CC. This is mainly caused by the fact that coalition agreements decide on average to 0.15%-point lower real disposable income for Middle Incomes than the weighted average, even though parties always promise a higher purchasing power this income group. In addition, while parties think very differently about (moderately) increasing or (strongly reducing) the purchasing power for High Incomes, the coalition agreements end up with on average 0.17%-point lower real disposable income than the weighted average of government parties in CC. The mirror image is the group Social Benefit Recipients: coalition agreements decide on average to 0.37%-point higher real disposable income than the weighted average of the government parties in CC. In weakened form, the same goes for the purchasing power for Low Incomes, coalition agreements lead on average to 0.08%-point higher real disposable income.

In Chapter 10, it is concluded that Dutch government formations result in certain fixed outcomes compared to the choices in CC. This gives indirectly an better understanding of the political behavior in the 'black box' of formation. Mainly, there is a clear relationship between the CPB's assessments of the election manifestos and the coalition agreements. The weighted average of the formation

parties in CC on an expenditure category, tax and premium burden category, purchasing power category or macroeconomic variable is often a good predictor for the direction of the parties' decisions on this variable in the coalition agreement. The correlations are regularly high, which indicates that CC has a strong agenda-setting function for the coalition agreements.

Still, there are clear (structural) differences between the level of parties' choices in CC (weighted average of government parties) and in the coalition agreements. There seem to be *formation preferences* that, regardless of the political color of the negotiators, ensure that the parties' choices in coalition agreements deviate from previous choices in the CPB's assessment of election manifestos. There is (1) a formation preference for higher public expenditures, except for education expenditure. There is (2) a formation preference for higher tax and premium burdens, except (3) for the tax burden for companies. There is (4) a formation preference for purchasing power redistribution, in favor of social benefit beneficiaries, low incomes and two-income-households and structurally disadvantageous for the employed, middle incomes and high incomes. Finally, there is (5) a formation preference for the government budget in the medium term, not for the government budget in the long term. Altogether, these formation preferences arise without realizing better macro-economic outcomes: the government budget, economic growth and unemployment on average all end up slightly worse than the weighted averages of the government parties in CC.

The analytical outcomes of this PhD-thesis are in line with a large part of the literature in economics, public administration and public science on, among others, political economy behavior, political negotiations, agenda-setting and the influence of interest groups. In the discussion there is an elaboration of this theoretical and empirical literature, and also a more abstract treatise on the question how the found Dutch formation preferences are helpful for the parties to successfully reach a coalition agreement.