



Revealed social preferences of Dutch political parties[☆]



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ABSTRACT

We measure the redistributive preferences of Dutch political parties using unique, detailed information from their election proposals. By employing the inverse optimal-tax method, we calculate the political weights across the income distribution for each political party. We find that all Dutch political parties give a higher political weight to middle incomes than to the poor. Moreover, the political weights of the rich are close to zero. Furthermore, we detect a strong political status quo bias as the political weights of all political parties hardly deviate from the weights implied by the pre-existing tax system. We argue that political-economy considerations are key in understanding these results.

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“Don’t tell me what you value. Show me your budget, and I will tell you what you value.”

Joe Biden – US Presidential Elections, September 15, 2008

1. Introduction

As income and wealth inequality have been rising in many countries during recent decades (Atkinson et al., 2011; Piketty, 2014), policies to reduce income inequality have returned to the top of the political agenda. Indeed, President Obama (2013) has called inequality the ‘defining challenge of our time’ and political disputes over income redistribution have become more polarized and ideologically charged. Republicans accuse the Democrats of ‘taxing job creators’ (Romney, 2012), while Democrats often accuse the Republican Party of only cutting taxes for the very rich (Obama, 2015). Debates concerning redistribution are also polarized in The Netherlands. Conservative-liberal Prime Minister Mark Rutte (2012) considers all left-wing parties ‘socialist’ that ‘destroy wealth’ by ‘letting

the government take away more than half of every euro you make'.¹ Conversely, the socialist party has blamed the right-wing parties of pursuing 'neo-liberal' policies that only 'make the rich richer and the poor poorer' (Socialist Party, 2014). Similar examples can be found in many other countries. However, despite heated political rhetoric, no one has – to the best of our knowledge – ever tried to *measure* the redistributive preferences of political parties.

In this paper we measure the redistributive preferences of political parties by exploiting data on the tax-benefit proposals of political parties in their election programs. In a process unique in the world, CPB Netherlands Bureau for Economic Policy Analysis (CPB) makes an extensive analysis of the effects of election programs on public expenditures and tax revenues, key macro-economic variables, and the income distribution for every national election in The Netherlands since 1986.² To conduct this analysis, all major Dutch political parties voluntarily provide CPB with detailed policy proposals. CPB acts as a disciplinary device by preventing political parties presenting free lunches in their election programs. Moreover, CPB is widely considered, by political parties and the media alike, to be the single most important non-partisan judge regarding the economic consequences of political parties' policy proposals. The publication containing the economic outcomes of the election programs, *Charted Choices*, plays an important role in the election campaign. Politicians use the figures from *Charted Choices* to back up their arguments in election debates. Moreover, the election programs of Dutch political parties are not cheap talk. CPB's analyses of the different party programs are the basis for the negotiations among coalition parties forming a government after the elections. 92 percent of all measures of the 2012–2017 coalition agreement were previously announced in the election programs (Suyker, 2013).

By using the data supplied to CPB, we are able to reveal the political preferences for income redistribution with the inverse optimal-tax method, pioneered by Bourguignon and Spadaro (2000, 2012). For any given tax schedule, the inverse optimal-tax method derives the social preferences that make that particular tax schedule the optimal one. The main idea of this paper is that each political party sets its tax system so as to optimize its political objectives. By exploiting the detailed information on the proposed tax systems, and assuming that Dutch political parties indeed optimize the tax system according to their political preferences, we are able to calculate political parties' political weights for all income groups and the non-employed. Thus, to paraphrase former Vice-President Joe Biden, by showing their budgets, Dutch political parties tell us who they value. Throughout this paper we speak of political weights of the political parties rather than social welfare weights to avoid the impression that political parties optimize a standard social welfare function. They do not, as we will demonstrate later. Political weights are analytically equivalent to social welfare weights. However, political weights do not only tell us something about parties' redistributive preferences, but also about their strategic (influencing the election or government formation) and opportunistic (gaining voters) motives.

We base our calculations on an inversion of the optimal income tax model of Jacquet et al. (2013), which allows for both an intensive (hours or effort) and an extensive (participation) decision margin. We derive political weights from a structural model to address the potential endogeneity of the elasticities, the income distribution, and the employment rates with respect to the policy proposals of

political parties. Our main analysis focuses on individual tax payers. We calibrate the model using detailed information on: i) the earnings distribution, including an estimate of the Pareto tail for the top; ii) marginal and participation taxes derived from an advanced tax-benefit calculator incorporating all taxes and transfers in The Netherlands; iii) CPB-estimates of intensive and extensive elasticities that are used in the calculation of the long-run economic effects of the election programs. These estimates are in line with most recent causal evidence of the elasticity of taxable income and participation elasticities in the literature, including those for The Netherlands. The inverse optimal-tax method allows us to recover the political weights implied by the detailed proposals for the tax system of Dutch political parties in the elections of 2002. We focus on four political parties that fit into the 'left-wing' and 'right-wing' taxonomy regarding preferences for income redistribution: the socialist party (SP), the labor party (PvdA), the Christian-democratic party (CDA), and the conservative-liberal party (VVD).

Our main findings are fourfold. First, our results show that political preferences for redistribution are partly congruent with standard social welfare functions.³ In particular, all parties roughly give a higher political weight to the poor than to the rich and left-wing parties give a higher political weight to the poor and a lower political weight to the rich than right-wing parties do. Second, we detect an important and robust anomaly in the political weights: for all parties they are *increasing* from the poor to the middle-income groups. This result arises from the fact that both effective marginal tax rates, and the elasticity of the earnings density increase with income up to modal income. Several other papers also find that (for all households, for subgroups or for specific countries) social welfare weights need not be monotonically declining in income (e.g. Petersen, 2007; Blundell et al., 2009; Bargain and Keane, 2010; Bargain et al., 2014b,c; Lockwood, 2016). Third, all political parties soak the rich by setting the top rate of the income tax close to the revenue-maximizing rate. Indeed, welfare weights are slightly negative in the baseline. This is found as well in Petersen (2007) and Bourguignon and Spadaro (2012). However, this finding is not universal. Since the Reagan administration, US social welfare weights are not much lower for top incomes than for average incomes, see Hendren (2014) and Lockwood (2016). Similarly, during the Thatcher administration, UK social welfare weights are relatively large for the highest incomes, see Bargain and Keane (2010). Fourth, we uncover a strong status quo bias in redistributive politics in The Netherlands. Specifically, the differences in the political weights between parties are all small and the political weights are close to the weights of the pre-existing tax system.⁴ Therefore, we argue that the political process is important in shaping tax policy outcomes.

We conducted several robustness checks. First, political parties may have different views on the behavioral elasticities. Although there appears to be little disagreement regarding the elasticities used by CPB in the analysis of the election proposals, there may be 'elasticity optimists' and 'elasticity pessimists' (Stiglitz, 2000, p. 554).⁵ In a robustness check we show that the first anomaly – increasing political weights to the mode – is completely robust to changes in the elasticities. However, the second anomaly – negative political

³ It is typically assumed that social welfare weights are positive and monotonically declining in income due to positive but diminishing marginal utility of private income or concavity in the social welfare function (Bourguignon and Spadaro, 2012).

⁴ We show this for the 2002 elections. Bolhuis (2017, p. 110) argues that this is true in all elections in which election proposals have been analyzed by CPB: "... the parties hardly want to change overall government spending and overall tax burdens ... compared to the status quo". Moreover, Gielen et al. (2009) demonstrate that marginal tax rates barely changed between 2001 and 2011, implying that political weights do not change much over time. During this period, The Netherlands had 6 different governments and 5 general elections.

⁵ Bolhuis (2017, p. 30) concludes that "... the publication *Charted Choices* and the analysis of the coalition agreement ... are treated as 'objective truth' ...".

¹ In Europe, liberal parties are not left-wing oriented parties, but classical liberal, pro-market, small-government parties that generally take conservative positions on non-economic matters. That is why we consistently use the terminology 'conservative-liberal' parties in this paper.

² See CPB (2017) for the analysis of the 2017 elections, and the contributions in Graafland and Ros (2003) and the analysis in Bolhuis (2017) for the advantages and disadvantages of this practice.

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