CHAPTER 6

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BALANCING INFORMATION AND UNCERTAINTY

1. INTRODUCTION

On 6 January 2001, Thaksin Shinawatra won the elections in Thailand by making many attractive promises without saying where all the money would come from. He pledged a three-year debt moratorium for perennially indebted farmers, along with a development fund of 1 million bath ($23,000) for each of Thailand’s 70,000 villages. Some Bangkok-based analysts estimated that if Thaksin would honour all his promises, public debt would rise from 60% of GDP to as high as 100% of GDP. That would risk weakening the bath and could stoke the flames of inflation. As a result, the burden of Thaksin’s populist pledges would boomerang straight back on the average Thais he promised to help (Crispin and Tasker, 2001).

In the Netherlands, Thaksin would probably not have been successful, because the political parties use to ask CPB Netherlands Bureau for Economic Policy Analysis (CPB) to analyse their electoral programmes and publish the results of this analysis just before the elections. The purpose of this procedure is to use the tools of economics to separate economic arguments from political preferences in a more or less neutral way. This raises the quality of the electoral programmes and clarifies the economic consequences of these programmes to the citizens. It brings home the need to combine tax cuts with unpopular reductions in public outlays, or alternatively, to finance attractive public expenditure with unpopular increases in the tax burden. Dependent on the political setting, the CPB report occasionally has had a significant impact on the political scene. For example, in 1998 the analysis of CPB showed that the Christian Democrat CDA’s proposed policies would hardly reduce unemployment. This became a hotly debated topic and influenced the formation of the coalition after the elections. Afterwards, several economists voting on CDA doubted the quality of CPB’s analysis.

Johan J. Graafland and Arie P. Ros (Eds.), Economic Assessment of Election Programmes: Does it Make Sense?, 61-79.
This raises the question of the likelihood of the outcomes published in the CPB report. Can we really be so confident in the tools of economics that we allow the CPB’s report to have a major impact on the formation of the coalition for the next four years? How can we find a balance between using the information provided by economists without disregarding the uncertainty involved with this type of analysis? What does a proper balance imply for the presentation of the results?

In order to answer these questions, this chapter distinguishes between two types of analysis. Section 2 deals with the calculation of the \textit{ex ante} budgetary consequences of the political programmes, where the degree of uncertainty is relatively low. Section 3 describes methodological aspects of several aspects of the analysis of overall \textit{ex post} economic effects of the political programmes. Section 4 evaluates CPB as an audit institute of political parties by reviewing some procedural criteria. Section 5 summarizes the main conclusions.

2. CALCULATION OF THE \textit{EX ANTE} BUDGETARY EFFECTS

The most attractive part of the CPB analysis of the election programmes of the political parties concerns the calculation of the \textit{ex ante} budgetary effects of the proposals of the political parties in which behavioural consequences of the effects are not taken into account. In this case, the uncertainty in the numbers reported by CPB is relatively low, although not absent. For example, for the calculation of the budgetary effects of complex income tax reforms, a lot of information is needed about the number of people that belong to the groups that are affected, and sometimes this information is scarce or must be based on small samples of micro data. Fortunately, CPB can sometimes check the calculations by comparing them with calculations of other agencies, like the Ministry of Finance, which owns a very detailed tax account for the Dutch population. This makes the calculation of the budgetary consequences a relatively easy task, whereas the impact on the quality of the political process is obvious. The political parties are forced to come up with consistent plans covering both the income and expenditures of the government and, during the process to formulating these plans, can learn from the CPB expertise.

Although the calculation of the \textit{ex ante} budgetary effects of political programmes is informative, it only gives a partial insight into the full budgetary effects of these programmes. The policy measures will also generate behavioural effects that impact the government receipts and expenditures. Table 1, that reports the \textit{ex ante} and \textit{ex post} budgetary consequences of the political programmes in 1998, illustrates this. According to Table 1, the effectiveness of the various programmes differs significantly. For example, whereas the \textit{ex ante} plans of the PvdA raise the budget deficit, \textit{ex post} the budget deficit declines. This is due to a fall in government outlays caused by the wage reduction generated by the programme in combination with a rise in tax income caused by the positive impact of its programme on economic growth. In contrast, the behavioural effect of the Christian Democratic CDA programme is hardly favourable. \textit{Ex post} the budget deficit declines only slightly more than in the \textit{ex ante} plan. Focusing only on the \textit{ex ante} budgetary consequences would therefore be ad hoc and lead to misjudgement of the various political programmes if these behavioural effects are substantial.