New coalition in the Netherlands unintentionally levels income distribution further

A first analysis by the CPB of the economic effects of the headline agreement of the prospective Dutch coalition broadly confirms our initial assessment. New insights reveal that the agreement is relatively more supportive of lower incomes, contrary to the coalition's goal of "no more levelling of the income distribution"

(L-R) Party leaders Pieter Omtzigt (NSC), Caroline van der Plas (BBB), Geert Wilders (PVV) and Dilan Yesilgoz (VVD)

Purchasing power boost contributes to mildly stronger GDP growth in the short run

Last night, the independent Netherlands Bureau of Economic Policy Analysis (CPB) published a first impact assessment of the headline agreement. Compared to the baseline that contains the policy path of the previous government, the new policy plans are projected to boost GDP growth mildly, by 0.1 percentage point per year on average in 2025-2028. This is mostly the result of higher public expenditures in the short run, higher private investment in housing and a boost to consumption via purchasing power measures, confirming our more elaborate initial analysis.

See here for our assessment of the headline agreement

Further levelling of the income distribution

This impact of the boost to purchasing power of households is, however, different than initially anticipated by the coalition: it is less aimed at middle-income households. Based on the CPB's assessment, the proposed policy changes are estimated to have the opposite effect versus the stated goal of "no additional levelling of the income distribution".

Lower-income households are profiting more than middle- and higher-income households: (on average lower income) households on benefits and pensioners are expected to see a boost to purchasing power of +0.5 percentage points on average per year (in 2025-2028) and +0.3 percentage points, respectively, while households with a job can expect a +0.1 percentage point boost.

The fact that lower-income households are profiting relatively more is due to an increase in welfare benefits, increases in rental and health care allowances and a rise in the child-related allowance, among other things. This is the result of another goal in the agreement, to end child poverty.

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