Government decisions on income redistribution and public production
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Preface

It was during the months that I was finishing my study in Econometrics that Jan Potters came up with a position for a research assistant at the University of Amsterdam. Although I was contemplating several options how to proceed after my study, I must admit that I was not really thinking of a step towards science. But Jan convinced me by arguing that the research was about economics, politics, mathematics and even philosophy, where the latter was a bit exaggerated, but Jan knew my interests. And he added that the academic climate was wonderful over there. So I went to Amsterdam and started with the research that ends in this monograph. The support of Jan Potters, in particular during the first half of the decade that I worked on my thesis, was invaluable. Although Jan Potters led me to the road of research, it was Frans van Winden who really learned me how to walk that road. His attitude towards research and his passion for science are infectious. The stimulating discussions with Frans and his constructive criticism on the many calculations and concepts resound in the final result. And sometimes Frans had to put me back on the road when I was about to strand on a crooked way.

I regarded working at the University of Amsterdam as challenging and stimulating. The interesting conversations I had with a lot of colleagues, not only on economics but also on many other subjects, contributed to that atmosphere. Apart from Jan Potters and Frans van Winden I should mention Arthur Schram, Joep Sonnemans and Frans van Dijk in that respect. Arthur encouraged me by saying that I should not bother about the preface: three words would suffice. I cannot remember what he had exactly in mind (it was something with thanks and Arthur), but I am afraid that I am not following his suggestion yet. A discussion with Frans van Dijk was undoubtedly soccer-free, which is fine, sometimes. Talking about soccer. While the white board in the hall was intensively used for the best line-up of the Dutch team during another soccer-championship, Tine Sybesma surprised us (or at least me) with a French poem. Merci, Tine. Claudia van den Bos arrived at the University of Amsterdam long after I had left. She was invaluable during the last hectic months.

While I was still trying to find results with the model that is used in Part II of this monograph, my appointment at the University of Amsterdam came to an end. Frans van Winden suggested to examine the option to accomplish the alternative national service at the university. But this time I decided not to follow his suggestion and went another road. The change-over to GroenLinks did surely not stimulate the progress of my thesis, but I never regretted it. During my work at GroenLinks I came in touch
with the empirical side of the relation between politics and economics. This was in particular true for the project I had with Gerrit Berkelder, Mildi Rouw, Jolande Sap and Kees Vendrik. It was an enjoyable, exciting and challenging project. And it was a great team too. Bart Snels was another fine colleague at GroenLinks, with whom I also set the first steps into a new field: economics and the environment.

The last four years I combined a full-time job at the RIVM (the Dutch National Institute of Public Health and the Environment) with the completion of my thesis. A lot of colleagues sympathized and encouraged me during these years. And I am indebted to them all. I should in particular mention Ronald Albers who really tried to find ways to speed up the finishing touch. My successive roommates Johannes Bollen, Mirjam Harmelink and Bas van Esch had to listen to all my complaints, in particular at the Monday mornings after another lost weekend. Although I did not keep a list I do not hesitate to give Mirjam the prize for asking me most frequently ‘is het af’. I think my interests in real economics (that is, theory and modeling) resurfaced, because of the interesting discussions I had (and still have) with Annemarth Idenburg. Moreover, she reminds me that economic theory is more than the mainstream world of rational men, market equilibria and so on.

There were a lot of people who walked with me along the road. Some walked the whole way, others a part. During such a long walk it is good to know that there is an anchorage where you are always welcome. My parents gave me such an anchorage and I really thank them for all their support. Thijs and Doret, and Tiny and Hans supported me more than they realize. Fred was always there when I needed a break, or a drink. During the long road I had to follow that was essential for my equilibrium.

Amsterdam, July 1999

Eric Drissen
Prologue

Policy evaluation

The impact of public policies on the development of a society is an extensively discussed issue. In this context, not only politicians and opinion makers participate, but also economists and social scientists. The contribution of social scientists in this discussion is, in general, motivated by their professional background. Economists, in particular, interested in the impact of public policies on the economic performance. In their contribution economists pay, for example, attention to the efficiency of the policy proposals, to the distributive effects of these proposals and to the question whether the policy proposals stimulate economic development. Political scientists focus not only on the distributive effects, but also on the political support of policy proposals and on the decision-making process.

To get a better understanding of the impact of a policy proposal, the different effects of a public policy have to be evaluated. For a correct evaluation of these effects, econometric models are used. An economic model may become rather complex if the model has to be used for the simulation of different types of policy instruments and if these instruments have to be evaluated on a number of effects. Therefore, an economic model is often equipped for the analysis of a limited number of public policies that are evaluated only on a limited number of effects. The structure of the model is given by the functional relationships that describe the interrelations between the policy variables and the economic variables.

The policies that are central in this book are the redistribution of income and the production of public goods. The main effects of these policies are the important macroeconomics that determine the interrelations between policy and economic variables are discussed in the remainder of this introduction. The emphasis, furthermore, given to the purpose and the choice of the models.

The use of economic models in policy evaluation

The choice of a model to analyze the effects of economic policies is, in the last decades, less straightforward than it once used to be. Since the landscape of economic modeling has changed dramatically since the mid-seventies, until this time, models builders were working on static macroeconomic models that were rooted in
with the empirical side of the relation between politics and economics. This was in particular true for the project I had with Giorgi Berdzenishvili, Michel Blouin, Jeladze Sap and Kees Wetzelik. It was an enjoyable, exciting and challenging project. And it was a great event too. Bart Melk was another fine colleague at Gronnododa, with whom I also set the first steps into a new field: microeconomics and the environment.

The last four years I combined a full-time job at the NVIM (the Dutch National Institute of Public Health and the Environment) with the completion of my thesis. A lot of colleagues sympathized and encouraged me during these years. And I am indebted to them all. I should in particular mention Ronald Albers who really tried to find ways to speed up the finishing process. My successive roommates Johannes Holten, Marjan Huijbers and the two East London unions all my complications, in particular as the Monday mornings after半岛 were now weekend. Although I did not keep in touch with them all, I think my interest in real economics (and in theory and modeling) has been, because of the interesting discussions I had (and still have) with Arjan Stadhoud. Moreover, the reminder me that economic theory is more than the conventional world of capital, money, market equilibrium and so on.

There were a lot of people who walked with me along the road. Some walked the whole way, others a part. During such a long walk it is good to know that there is an anchorage where you are always welcome. My parents were one such an anchorage and I really thank them for all their support. With old friends, old Tony and Herm, supported me more than they realized. Feb was always there when I needed a break. In 1980 during the long read I had to follow you was essential for my equilibrium.

Amsterdam, May 1980

Fred. Drissen