

IFS comparative analysis of the parties' proposals

The main parties' tax and spending proposals

The three main parties plan for very similar levels of public borrowing, although there is debate about the appropriate level of tax and state expenditure. The Conservatives advocate spending and tax cuts of around £8bn per year relative to Labour's plans for 2003/04, the Liberal Democrats increases of similar size. These differences represent a change of less than 1% of GDP in each direction, in neither case enough immediately to transform the overall quality of public provision. This raises the question of how different the parties' plans for the longer-term are.

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The party which wins the election confronts a choice in the second half of the Parliament. Even assuming growth in DSS spending which is far below historical trend, then maintaining beyond 2003/04 the high growth rates in spending on health and education that are planned until 2003/04 will require either an increase in the tax take in national income, or very severe restraint in other spending areas – such as transport, policing and defence.

The Conservatives' proposals

Tax cut proposals focus on savers, single-earner couples with children and petrol. The largest proportionate gains go to families in the middle of the income distribution. Spending cuts of £8bn are proposed to finance the tax reductions, which we analyse.

The Liberal Democrat proposals

The main source of revenue to fund higher public spending for the Liberal Democrats is higher income tax, both the basic rate and a new higher rate of 50%. The new spending is targeted on education, pensioners and health. The overall package increases the average incomes of poor households and reduces those of the better-off.

Labour's proposals

There is little new proposed on tax structure, but there is confirmation of some proposed welfare reforms. The new credits for pensioners, childless people on low pay and families with children would extend the means-testing approach seen in the last Parliament. Ideas for asset-based welfare are also outlined, although await further detail.

The structure of welfare

If Labour wins the election, the shift to means-tested, credit-type schemes seems likely to be taken further. This shift has already increased the incomes of the poorest, extended joint assessment of incomes and furthered the erosion of the contributory principle. The other two main parties both challenge this approach, emphasising the problems of means testing, but propose different solutions. The Liberal Democrats stress the role of higher universal benefits, whereas the Conservatives would prefer tax cuts over significant benefit increases.

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Notes to editors

1. *Election Briefing 2001* will be launched today, 23rd May, at 11.30am at the Institute for Fiscal Studies.
2. Copies of the commentary will be available from IFS, 7 Ridgmount Street, London WC1E 7AE for £15 (£5 to members). It can also be downloaded free of charge from the IFS website (<http://www.ifs.org.uk/election/index.shtml>). For press copies, contact Emma Hyman on 020 7291 4850.