Filling the hole: how do the three main UK parties plan to repair the public finances?

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Summary (1/2)

• Large fiscal tightening required by all three parties
  – Conservatives plan to start and finish sooner
  – 2010–11 to 2016–17: Conservatives would borrow 6% less than Labour & the Liberal Democrats would
  – debt to return to 40% of GDP in 2031–32 under all three parties

• Bigger differences in planned ratio of spending cuts to tax rises
  – Labour 2:1; Liberal Democrats (eventually) 2½:1 and Conservatives 4:1
  – two 1993 Conservative Budgets planned for 1:1 ratio
  – Labour and Conservatives plans imply further tax raising measures
Summary (2/2)

• All plans imply deep cuts to spending on public services
  – Labour & Liberal Democrat plans imply tightest sustained squeeze since April 1976 to March 1980
  – spending cuts as deep as Conservative plans imply not delivered over any sustained period since Second World War

• Very little detail from any of the parties
  – Liberal Democrats slightly less bad on this score than the other two
  – but they would have the most to find in 2015–16 and 2016–17

• Would any of the parties deliver cuts to public services on this scale?
  – alternative is significant tax increases and/or welfare cuts
Timing and size of the fiscal tightening

Repair job = 4.8% of GDP, £71bn

Note and sources: Figure 4.1.
Timing and size of the fiscal tightening

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Timing and size of the fiscal tightening

Labour: 6 year tightening from April 2011

Note and sources: Figure 4.1.
Timing and size of the fiscal tightening

Liberal Democrats: as Labour (6 year tightening from April 2011)

Percentage of national income

L     LD   C    L     LD   C    L     LD   C    L     LD   C    L     LD   C

Note and sources: Figure 4.1.
Timing and size of the fiscal tightening

Conservatives: start & finish sooner (6 year tightening from July 2010)

Note and sources: Figure 4.1.
Public sector net borrowing profiles

Over 7 years from April 2010 borrowing would be:
- Labour & Liberal Democrat = £643 billion
- Conservatives = £604 billion

Note and sources: Figure 3.2.
Debt high for a generation

Debt below 40% of GDP

Labour & Liberal Democrats & Conservatives = 2031–32

Note and sources: Figure 3.3.
Composition of discretionary fiscal tightening

Note and sources: Figure 4.1.
Composition of discretionary fiscal tightening

Percentage of national income

Spending
Taxation

Note and sources: Figure 4.1.
Composition of discretionary fiscal tightening

Note and sources: Figure 4.1.

Labour: 2:1 spending cut to tax rises

Spending
Taxation
Composition of discretionary fiscal tightening

Liberal Democrats: 2½:1 spending cut to tax rises

Note and sources: Figure 4.1.
Composition of discretionary fiscal tightening

Conservatives: 4:1 spending cut to tax rises

Percentage of national income

Spending
Taxation

Note and sources: Figure 4.1.
Total spending and revenues

Labour: spending down to 2004–05 level
taxes up to 1989–90 level

Note and sources: Figure 4.2.
Total spending and revenues

Percentage of national income

- Spending
- Revenues

Liberal Democrats: spending down to 2004–05 level

taxes up to 1989–90 level

Note and sources: Figure 4.2.
Total spending and revenues

Note and sources: Figure 4.2.
No more tax rises?

- **Labour**
  - £17 billion tax increase in pipeline (April 2010 to March 2014)
  - further £7 billion required by 2016–17

- **Conservatives**
  - £6 billion net tax cut on top of the increases in the pipeline
  - would need to reverse £3 billion of this by 2016–17

- **Liberal Democrats**
  - £3 billion net tax increase on top of the increases in the pipeline
  - might not need to do anything further