Post-election Austerity: Parties’ Plans Compared

IFS Briefing Note BN170
IFS election analysis: funded by the Nuffield Foundation

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Election 2015: Briefing Note 11

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1 The authors gratefully acknowledge funding from the Nuffield Foundation, which has provided generous support for ongoing IFS analysis relating to the 2015 general election. The Nuffield Foundation is an endowed charitable trust that aims to improve social wellbeing in the widest sense. It funds research and innovation in education and social policy and also works to build capacity in education, science and social science research. The Nuffield Foundation has funded this project but the views expressed are those of the authors and not necessarily those of the Foundation. More information is available at www.nuffieldfoundation.org. The authors would also like to thank the editors of the election briefing note series, Paul Johnson and Luke Sibieta, and Stuart Adam, James Browne, Andrew Hood, Robert Joyce and David Phillips for helpful comments and suggestions.
Executive summary

- The financial crisis and associated recession resulted in a sizeable, and mostly permanent, increase in borrowing. While the coalition government has overseen a reduction in borrowing from a peak of 10.2% of national income in 2009–10 to 5.0% in 2014–15, whoever forms the next government still faces the task of finishing the job of reducing borrowing back to sustainable levels.

- This election briefing note considers the fiscal plans of the Conservatives, Labour, the Liberal Democrats and the Scottish National Party (SNP). All four parties have said they would reduce borrowing in the coming parliament. None has managed to be completely specific about how much they want to reduce borrowing or exactly how they would do it. In analysing their policies, we have had to make some assumptions about their precise aims based on their stated aspirations and policies.

- All four parties’ plans imply further austerity over the next parliament. The Conservatives are planning a reduction in borrowing over the next parliament of 5.2% of national income, which would result in a surplus of 0.2% of national income by 2018–19. Labour have been less clear about their plans for borrowing, but their ambition to balance the current budget would be consistent with a smaller reduction in borrowing of 3.6% of national income, bringing it to 1.4% of national income by 2018–19. The Liberal Democrats are aiming for a borrowing reduction of 3.9%, to be achieved a year earlier (i.e. in 2017–18), while the SNP tax and spending plans imply a borrowing reduction of 3.6% of national income, but this would not be completed until 2019–20.

- The differences between the Conservatives on the one hand, and Labour and the SNP on the other, are substantial. The Conservatives need to find much more substantial spending cuts; Labour and the SNP would reduce the deficit and debt significantly more slowly.

- Under the Conservative plans, debt as a share of national income could be reduced from 80% of national income in 2014–15 to 72% by 2019–20. Under Labour, Liberal Democrat and SNP plans, debt in 2019–20 could be more like 77%, 75% and 78% respectively. Under the assumptions we have made, debt would be about £90 billion more in 2019–20 (in 2015–16 terms) if Labour’s plans were implemented than if the Conservatives’ plans were implemented. Higher debt entails higher debt interest payments, and would potentially leave the government less well placed to deal with future adverse events.
• Since the Conservatives’ plans imply the greatest reduction in borrowing, they have the greatest job to do in terms of setting out how they would achieve this. Despite this, their detailed tax policies are a net giveaway of 0.1% of national income, their detailed social security measures would only provide a tenth of the cuts that they have said they want to deliver, and their commitments on aid, the NHS and schools would (relative to a real freeze) increase spending on these areas by 0.3% of national income.

• The Conservatives have squared this circle with an aspiration to raise 0.2% of national income (around £5 billion) from clamping down on tax avoidance, unspecified further cuts to benefits amounting to 0.5% of national income (about £10 billion) and a further real-terms cut to ‘unprotected’ departmental spending of £30 billion that was not mentioned in their manifesto. So the Conservatives need to spell out substantially more detail of how they will deliver the overall fiscal targets they have set themselves.

• Under the Conservatives’ plans, and assuming they find the social security cuts and revenues from tax avoidance that they have targeted, total departmental spending would need to be cut by 7.1% between 2014–15 and 2018–19. This would be a slightly slower rate of cuts than over the previous parliament (an average cut of 1.8% per year compared with 2.4% per year between 2010–11 and 2014–15). Departmental spending would fall to its lowest level in real terms since 2003–04. Outside of aid, the NHS and education (which have been promised various levels of protection by the Conservatives), other departmental spending looks to be facing cuts of 17.9% between 2014–15 and 2018–19. This would be on top of the 18.1% cut experienced between 2010–11 and 2014–15, leading to a cumulative cut over the whole period from 2010–11 to 2018–19 of 32.8%). These ‘unprotected’ areas include defence, transport, law and order, and social care.

• Labour have been much less clear about exactly what level of deficit reduction they want to achieve and by when, but they have given more detail of how they would achieve any deficit reduction. Their detailed measures would boost rather than reduce tax revenues. The cost of their protections for public services is about the same as the Conservatives’ – though they have not spelt out a commitment to increase NHS spending by as much as the Conservatives have. In practice, it might not be surprising were Labour to deliver increases to NHS spending of at least that scale. They have, however, been clear in their manifesto that some cuts to ‘unprotected’ departments would be required.
• It looks as if Labour might need only relatively small cuts to departments other than aid, NHS and education spending – on top of the cuts already in place for 2015–16 – to bring about a balance on the current budget by 2018–19. But we can only say ‘looks as if’, because Labour’s pledge to ‘get a surplus on the current budget’ is vague. Given the coalition government’s investment plans, it would be consistent with any reduction in borrowing totalling 3.6% of national income or more. If a Labour government were to increase investment spending, their pledge would also be consistent with a smaller reduction in borrowing than that. Of course, if Labour are actually aiming for a lower level of borrowing than we assume, then they would have more detail to spell out in terms of how they plan to get there.

• The Liberal Democrats are aiming for a tightening between that of Labour and the Conservatives. They have failed to spell out details of how they would achieve much of their tightening, relying heavily on unspecified measures to reduce tax avoidance and evasion (£7 billion) as well as some unspecified social security cuts (£2 billion). They are also relying on cuts to departmental spending (£12 billion), although – unlike for the Conservatives – these were mentioned in their manifesto. Their plans require real cuts to departmental spending of 3.4% between 2014–15 and 2017–18 (or 9.0% outside of the NHS, education and aid). This is predicated on their aspiration to raise 0.3% of national income (£7 billion) from highly uncertain measures to reduce tax avoidance and evasion by 2017–18. By the end of the parliament, the Liberal Democrats claim to expect to raise £10 billion – twice as much as the Conservatives and a third more than Labour – from such measures.

• The SNP’s fiscal numbers imply the same reduction in borrowing over the next parliament as for Labour, although the reduction in borrowing under their plans would be slower. They would cut less to start with but the implication of the plans they have spelt out in their manifesto is that the period of austerity would be longer than under the other three parties we consider. Their tax takeaways appear to be offset by their tax giveaways, while they would increase the generosity of the social security system. As a result, while the SNP would increase total spending in real terms each year, departmental spending would be broadly frozen between 2014–15 and 2019–20, and departmental spending outside of the NHS and aid could be facing a cut of 4.3%. The SNP’s stated plans do not necessarily match their anti-austerity rhetoric.

• Unfortunately, the electorate is at best armed with only an incomplete picture of what it can expect from any of these four parties.
1. Introduction

The financial crisis and associated recession opened up a sizeable, and mostly permanent, gap between the previous government’s plans for spending and its expected revenues. Without some sort of consolidation, borrowing would have remained at historically high levels each year, and debt would have been on an unsustainable path.

Over this parliament, the coalition has implemented various measures (some of which were announced by the previous Labour government) aimed at reducing spending and increasing revenues, so as to reduce borrowing back towards sustainable levels. Figure 1.1 shows that by 2014–15 borrowing had been halved as a share of national income from its peak of 10.2% of national income in 2009–10 to 5.0% of national income by 2014–15.

Figure 1.1. The challenge: public sector net borrowing

Note: The legislated fiscal mandate requires the government to be aiming to run a surplus on the cyclically-adjusted current budget (i.e. to have revenues greater than non-investment spending, after adjusting for the ups and downs of the economic cycle) by the third year of the forecast horizon, which would presumably be 2018–19 by the time of any post-election Budget. This would equate to borrowing of 1.4% of national income given the coalition government plans for investment spending of £30 billion in 2018–19. Source: Office for Budget Responsibility, Public Finances Databank and Economic and Fiscal Outlook: March 2015.

However, this still leaves borrowing at a level that was only exceeded on three occasions in the UK between 1978–79 and 2007–08. If maintained, this level of borrowing would result in debt continuing to increase as a share of national income in future, and is therefore an unsustainable position for the public finances in the long run. Therefore, whoever forms the next government still faces the task of finishing the job of reducing borrowing to sustainable levels.

In this election briefing note, we compare and contrast the fiscal plans laid out by the four political parties that are widely predicted to win the most seats in the forthcoming UK general election: the Conservatives, Labour, the Liberal Democrats and the Scottish

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3 These occasions were in 1992–93, 1993–94 and 1994–95, after the 1991 recession.
National Party (SNP). All these parties are proposing reductions in borrowing relative to current levels, though they appear to differ in what they think a suitable medium-term level of borrowing is and how quickly they wish to get to that level of borrowing (and, therefore, in how quickly they want debt to fall).

The parties also differ in the extent to which they think that a borrowing reduction should be achieved through tax rises, cuts to social security spending or cuts to spending on public services. In this note, we compare the composition of the future tightening planned by the parties – to the extent that we know what their plans are. We also draw attention to what has been left unsaid. A subsequent IFS election briefing note will discuss some of the specific tax and benefit policies announced, and their potential distributional implications, in more detail.

This briefing note proceeds as follows. Section 2 outlines how far and how fast each party has said it would reduce borrowing and debt. Section 3 describes the overall size of the tax policies that each party has announced and Section 4 describes the parties’ plans for total spending. Section 5 describes the overall size of announced policies that affect social security spending and Section 6 explores the parties’ plans (both explicit and implied) for spending on public services. In Section 7, we pull these together to discuss the composition of the borrowing reduction planned by each party and what they still need to provide detail on. Finally, Section 8 provides some concluding remarks.

2. The parties’ overall fiscal plans

The parties differ in their overall medium-term objectives for reducing borrowing and debt. The Conservatives’ aim is to ensure that the total revenues received by the government are sufficient to pay for all public spending – in other words, they are aiming for an overall budget surplus. In contrast, both Labour and the Liberal Democrats have said that it would be willing to borrow to pay for (some) investment spending. Labour have suggested they would be willing to borrow for investment spending, as defined by the standard measure of public sector net investment. The Liberal Democrats, on the other hand, have said they would be willing ‘to borrow for capital spending that enhances economic growth or financial stability’. 5, 6

With public sector net investment currently planned to be around 1.4% of national income from 2017–18, this suggests that Labour could be willing to borrow around 1.4%
of national income (£27 billion a year in today’s terms) in the medium term, while the Liberal Democrats might be willing to borrow a little less, and the Conservatives want to have no borrowing at all.

The SNP have not explicitly said what they think an appropriate level of medium-term borrowing would be. However, they have said that they want to see borrowing fall in every year of the next parliament. As we describe below, the plans they have set out for spending and taxation allow us to derive an implied path for borrowing over the next parliament. However, it is not clear from what they have said whether they view these implied levels of borrowing as being appropriate for the longer term or whether they would – beyond the end of the next parliament – wish to see borrowing fall further or rise again.

A lower level of borrowing would imply debt falling more quickly. This would have the benefits of leading to a lower level of debt interest payment and potentially leaving the UK better placed to deal with any future adverse event (such as the public finance challenge posed by an ageing population or any future recession). But reducing debt more quickly would also require more in the way of tax rises and/or spending cuts.

In principle, a fiscal rule that targets borrowing for non-investment spending (such as the one the Liberal Democrats have suggested) would, on its own, be consistent with unlimited borrowing to finance investment spending. However, each of the parties has also set out plans for the path of overall debt, which would constrain total borrowing and, therefore, how much investment spending could be financed through borrowing. These are as follows:

- **Conservatives**: ‘ensure that debt keeps falling as a share of GDP’.7
- **Labour**: ‘We will get national debt falling ... as soon as possible in the next parliament’.8
- **Liberal Democrats**: ‘from 2017/18, debt must fall as a proportion of our national income every year – except during a recession – so it reaches sustainable levels around the middle of the next decade’.9
- **Scottish National Party**: ‘Our proposal would see public sector borrowing and public sector net debt falling in every year as a share of national income’.10

The remainder of this section sets out in more detail what we know about the level of borrowing that each of the parties is aiming to achieve in each of the next five years and describes the assumptions we have made where the parties have not provided full information.

As described above, the Conservatives, Labour and the Liberal Democrats all have targets for some measure of borrowing to be in balance, and all four parties have said they want debt to be falling as a share of national income by the end of the next parliament at least

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(and in some cases earlier). However, they have provided varying degrees of information about how quickly they would move towards these medium-term objectives.

In this context, it is worth bearing in mind that the coalition government legislated for an updated Charter for Budget Responsibility in December 2014, which contained two fiscal rules: 11

- The (revised) fiscal mandate is a forward-looking aim to achieve cyclically-adjusted current budget balance by the end of the third year of the rolling five-year forecast horizon. At the time of the March 2015 Budget, the year in question was 2017–18; by any post-election Budget, the year in question would presumably be 2018–19 (as shown by the cross in Figure 1.1).

- The (revised) supplementary target is for public sector net debt as a share of national income to fall between 2015–16 and 2016–17.

These fiscal rules could, of course, be revised, replaced or scrapped after the election (and, as we will describe, some of the parties have proposed new fiscal rules). Indeed, shortly after taking office, the coalition government scrapped the legislation it had inherited from the previous Labour government. This legislation had required that the deficit be halved between 2009–10 and 2013–14 (a target that was subsequently breached); the Conservatives had voted against this legislation when in opposition.

However, both the coalition parties and Labour (although not the SNP) voted in favour of the new fiscal act, and therefore arguably could be expected to stand by it were they in office after the election. If amendments to these targets are being considered, it should be borne in mind that – while the fiscal mandate has many sensible features – the supplementary target has little to commend it. 12

Conservatives’ plans for borrowing

The Conservative Party’s manifesto was not explicit about its plans for the level of borrowing in each year of the next parliament. However, the manifesto did announce specific plans for total public spending and some proposed changes to the tax system. Therefore, it is possible to calculate the implied level of borrowing each year. This is shown in Figure 2.1.

The Conservative manifesto also made statements about the level of borrowing in particular years. For example: 13

- ‘This consolidation ... is necessary to ensure that debt keeps falling as a share of GDP and to deliver a balanced structural current budget in 2017–18.’
- ‘starting in 2018–19, we are set to move into surplus, with the Government taking in more than it is spending’.

The implied profile for borrowing that we have backed out (shown in Figure 2.1) is consistent with the above two statements. The Conservatives’ tax and spending plans imply a reduction in borrowing of 5.2% of national income between 2014–15 and 2018–19, with an overall surplus from 2018–19 of 0.2% of national income. This would be

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12 See Crawford et al. (2014, ibid.).

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fractionally smaller than the 0.3% of national income surplus projected by the Office for Budget Responsibility (OBR) for 2019–20 on the basis of the coalition government’s current policies.

The Conservatives’ manifesto also stated that they would introduce ‘A new fundamental principle of fiscal policy, monitored by the independent OBR, [to] ensure that in normal economic times, when the economy is growing, the government will always run a surplus’. The impact on public sector net debt of the Conservatives’ borrowing profile up to 2019–20, and a budget balance in the long term, is illustrated in Figure 2.2. Debt as a share of national income would fall in each year after 2014–15: from 80.2% of national income in March 2015 to 71.7% by March 2020. Thereafter, our illustrative long-run projection suggests that debt would fall further, reaching 52% of national income by the start of the 2030s. This would be much lower than the peak level of debt reached in 2014–15 but still above the pre-crisis level (of 37% of national income in March 2008).

Figure 2.1. Public sector net borrowing profiles compared

Note: For the numbers underlying this figure, see Appendix Table A.1.
Source: Authors’ calculations based on the OBR’s Economic and Fiscal Outlook: March 2015 and election 2015 manifestos from each of the parties.

Figure 2.2. Public sector net debt profiles compared

Note: For the numbers underlying this figure, see Appendix Table A.2.
Source: Authors’ calculations based on the OBR’s Economic and Fiscal Outlook: March 2015, chart 1.8 of HM Treasury’s Budget 2015 and election 2015 manifestos from each of the parties.

Labour’s plans for borrowing

The Labour Party has provided disappointingly little information on what it would borrow if it were in government after the next election. Labour’s manifesto stated that they would ‘get national debt falling and a surplus on the current budget as soon as possible in the next Parliament’, but did not give further detail on which year they would aim to achieve a current budget surplus or, arguably more importantly, how large a surplus they would want to aim for. They also did not spell out what they would like the level of public spending to be after the next election, meaning it is not possible to back out an implied level of borrowing purely on the basis of the announcements they have made. Instead, we have had to make some assumptions about how quickly they would seek to achieve a current budget balance.

Our Labour scenario has them achieving exactly a current budget balance in 2018–19 and maintaining this balance in 2019–20. In terms of the profile of borrowing reduction, we assume that they stick to the coalition government plans for 2015–16 and then cut borrowing after that at a sufficiently fast pace to adhere to their manifesto statement that they will cut spending on departments outside health, overseas aid and education until they achieve current budget balance. Cutting unprotected departments in this way, combined with Labour’s other stated policies, is consistent with achieving a current budget balance in 2018–19. The resulting level of borrowing that we assume would occur under Labour each year is illustrated in Figure 2.1.

The level of borrowing shown for Labour in 2019–20 is the highest level that would be consistent with their objective of achieving a current budget ‘surplus’ by the end of the next parliament. They might, in fact, want a lower level of borrowing than this – for example, to build in a margin of error against their target. However, lower borrowing would require them to introduce more tax increases and/or spending cuts than those described below. For the remainder of this briefing note, we assume that they would borrow at the level shown in Figure 2.1.

Figure 2.2 shows the path of debt implied by this profile for borrowing and assuming that borrowing remains at 1.4% of national income after 2019–20. Unlike the Conservatives and Liberal Democrats, Labour have not been explicit about what they view as being the appropriate level of borrowing in the longer term. In the absence of this information, we assume in Figure 2.2 that they would maintain current budget balance beyond 2019–20.

Under these assumptions, debt would rise as a share of national income between 2015–16 and 2016–17 (from 80.2% to 80.4%). Thereafter, debt would fall as a share of national income year-on-year, reaching 77% by March 2020 and around 67% of national income by the start of the 2030s.

The implied increase in debt between 2015–16 and 2016–17 would be in breach of the requirement – under the Charter for Budget Responsibility – for debt to fall between these two years. If Labour wanted to comply with the Charter, they would need to borrow

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16 Labour have explicitly stated that they would stick to the government’s plans for current spending in 2015–16. See http://www.bbc.co.uk/news/uk-politics-28389816. In addition, we assume that they would stick to the coalition’s plans for investment spending in that year.
17 In fact, we assume that they freeze ‘unprotected’ departments’ budgets in real terms – this can be considered an upper bound on the level of spending consistent with their manifesto statements in 2016–17, 2017–18 and 2018–19.
0.1% of national income less in 2016–17 than is shown in Figure 2.1.\(^8\) (Since their manifesto did not state any commitment to doing this, we do not adjust our profile for borrowing under Labour to ensure that debt falls between these two years.)

**Liberal Democrats’ plans for borrowing**

The Liberal Democrats have been more transparent than the other parties about their overall fiscal plans for the next parliament, in particular setting these out in some detail up to 2017–18, when they intend to achieve a cyclically-adjusted current budget surplus. The specific tax and spending policies that they have outlined for 2016–17 and 2017–18 (described in detail in subsequent sections) imply borrowing at the level shown in Figure 2.1, i.e. falling to 1.1% of national income by 2017–18. This would imply a current budget surplus of 0.3% of national income. Thereafter, we assume that they keep borrowing at this level. This would seem to be consistent with their proposed new fiscal rule, that’ over the economic cycle we will balance the overall budget, no longer borrowing to pay for everyday expenditure. We will make one significant exception to enable us to invest in the things that will help our economy grow.’\(^9\) Under these assumptions, the Liberal Democrats would cut borrowing more quickly than Labour and borrow slightly less each year in the medium term.

Figure 2.2 shows the implications of this borrowing path for debt. Debt would fall every year from 2014–15 onwards, reaching 75% by March 2020 and then falling further to around 63% of national income by the start of the 2030s.

**Scottish National Party’s plans for borrowing**

The SNP manifesto was not explicit about exactly what level of borrowing they want to achieve in each year of the next parliament. However, similar to the Conservatives, they did set out details of how much they want to spend overall and what tax changes they want to make. From these, we can derive an implied path for public sector net borrowing. This is shown in Figure 2.1.

Based on the SNP’s plans for growth in total spending and their announced tax changes, we estimate that borrowing would fall under their plans, from 5.0% of national income in 2014–15 to 1.4% of national income by 2019–20. This would be around the same level of borrowing as the maximum consistent with Labour’s stated fiscal objectives, and slightly above the level the Liberal Democrats are aiming to achieve in the medium term (1.0% of national income). However, the SNP’s plans imply borrowing falling less quickly than under any of the other parties’ plans. In other words, their plans as stated imply less austerity than under any of the other parties over the first four years of the parliament, but more in the final year.

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\(^8\) This would imply cutting spending on unprotected public services by 1.6% in real terms in that year, rather than the real freeze described in Section 6 and shown in Appendix Table A.7. Alternatively, Labour could meet the target by simply delaying the government’s planned sale of the bank shares purchased in the financial crisis by 12 months. This would mean debt would be expected to rise in 2015–16 before falling in 2016–17. The fact that the fiscal rule could be met with such manipulation is a direct result of the inappropriateness of a target that says debt should fall between two fixed points regardless of what is happening before or after those points.

Figure 2.2 shows the path of debt implied by this profile for borrowing and assuming that borrowing remains at 1.4% of national income after 2019–20. The SNP have not been at all explicit about what they view as being the appropriate level of borrowing in the longer term. In the absence of this information, we assume in Figure 2.2 that they would maintain borrowing at 1.4% of national income beyond 2019–20.

Under these assumptions, debt would rise slightly as a share of national income between 2015–16 and 2016–17 (from 80.2% to 80.6%). Thereafter, debt would fall as a share of national income year-on-year, reaching 78% by March 2020 and around 67% of national income by the start of the 2030s.

The implied increase in debt between 2015–16 and 2016–17 would be in breach of the SNP’s manifesto statement that they would see ‘public sector net debt falling in every year as a share of national income’. If the SNP wanted to ensure that debt fell in 2016–17, they would need to borrow 0.4% of national income less in 2016–17 than is shown in Figure 2.1.

Summary of the parties’ plans for borrowing

As clearly illustrated in Figure 2.1, the main political parties are all planning to reduce borrowing over the next parliament. The main difference is in their target for the end of the parliament. In 2019–20, the Conservatives are planning to achieve a small overall budget surplus. Labour’s plans imply they could borrow up to 1.4% of national income and still meet their pledge of a current budget balance (assuming they spend 1.4% of national income on investment). The Liberal Democrats’ plans and proposed new fiscal rule suggest they might borrow slightly less than Labour (by around 0.4% of national income, according to our calculations). The SNP have provided least detail on what they perceive to be the appropriate level of borrowing in the medium term. However, their plans for spending and taxation over the next parliament imply that they would borrow around the same as Labour, i.e. more than the Liberal Democrats or the Conservatives.

The Conservatives, therefore, are choosing to say that they would reduce borrowing by the most over the next parliament (by 5.2% of national income by 2018–19), followed by the Liberal Democrats (by 3.9% of national income by 2017–18), Labour (by 3.6% of national income by 2018–19) and the SNP (by 3.6% by 2019–20). The arithmetic suggests that the reduction in borrowing under the SNP would be similar to that implied by Labour, despite SNP leader Nicola Sturgeon stating in February that ‘by taking a different approach – by offering an alternative to the austerity agenda of both Labour and the Tories – we would ensure that fiscal consolidation is consistent with a wider vision of society’.

The rate of borrowing reduction also differs somewhat across the parties. For example, the Liberal Democrats and the SNP appear to be aiming for about the same borrowing

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20 This would imply cutting spending on unprotected public services by 4.4% in real terms in that year, rather than the 1.5% cut described in Section 6 and shown in Appendix Table A.7. Alternatively, (as for Labour) the SNP could meet the target by simply delaying the government’s planned sale of the bank shares purchased in the financial crisis by 12 months. This would mean debt would be expected to rise in 2015–16 before falling in 2016–17.

21 The figures cited in this sentence relate to different years as the parties are aiming to reach the end of their ‘austerity’ programmes in different years.

reduction by 2019–20, but the Liberal Democrats want to achieve all of this by 2017–18 while the SNP have suggested taking two years longer.

These differences in borrowing plans make some difference to the profile for public debt over the next parliament. Figure 2.2 illustrates that debt could be 72% of national income in 2019–20 under the Conservative plans, compared with 75% under the Liberal Democrat plans, 78% under the SNP plans and 77% given what we have assumed are Labour’s plans. That is a difference of around £90 billion (in 2015–16 terms) between the Conservatives and Labour.

Perhaps more significant, however, when thinking about debt is the fact that the differences between the parties (in terms of their proposed levels of borrowing for the end of the parliament) might persist in the longer term. This is what would happen in the absence of any further austerity beyond 2019–20. The Conservatives and Liberal Democrats have also proposed explicit longer-term fiscal rules that suggest that their desired medium-term borrowing levels would be maintained (while Labour and the SNP have not been explicit about their longer-term borrowing objectives). If the different policies for borrowing were maintained into the longer term, then the rate at which debt would fall under each of the parties would be quite different: higher levels of borrowing would result in debt falling less quickly. This is illustrated in Figure 2.2. Of course, the path of the public finances over such a long period is highly uncertain and will be in part the result of choices made at a subsequent UK general election.

Larger borrowing reductions over the next parliament may have the advantage of debt falling more quickly but they also require greater austerity in terms of tax increases and/or spending cuts. In the following sections, we explore the composition of the tightening planned by each of the main parties, and the resultant planned tax and spending changes.

3. Cutting borrowing by … raising taxes?

In the March 2015 Budget, the OBR forecast that public sector receipts would fall by 0.2% of national income between 2014–15 and 2015–16, before increasing by 0.7% of national income between 2015–16 and 2019–20. Of the improvement beyond 2015–16, we estimate that 0.2% of national income will be due to tax policy measures announced by the coalition government that have either not yet been implemented or that would raise larger sums of money in future years (for example, the ending of contracting out into defined benefit pension schemes, which will increase revenues from National Insurance contributions from 2016–17). The remainder is due to the economic recovery and ‘fiscal drag’ (the tendency for receipts to increase as a share of national income over time, caused by many thresholds in the tax system being indexed to increase more slowly than the underlying tax base). Unless the next government repeals these existing legislated tax policies, it would expect to enjoy these forecast increases in receipts.

Tax revenues, and their contribution to a reduction in borrowing over the next parliament, will also depend on any new policies implemented by the next government.

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Each of the parties has pledged to implement various tax policies; we discuss these plans briefly here, and describe their expected effect on the public finances.

**Conservative tax plans**

The Conservatives have outlined a package of tax changes that they argue would be broadly revenue neutral. They have pledged to increase the personal allowance to £12,500 and to raise the higher-rate threshold to £50,000 by the end of the next parliament.\(^{24}\) If completed in 2020–21, these measures together would cost around £6 billion. They have also said that they would cut inheritance tax through the introduction of a new family home allowance, which they have claimed would cost around £1 billion if implemented in 2017–18.\(^ {25}\) In terms of takeaways, the Conservatives have pledged to restrict tax relief on pension contributions for those with an annual income above £150,000.\(^ {26}\)

However, by far the largest tax ‘takeaway’ is the Conservatives’ pledge to raise at least £5 billion of revenues by 2017–18 through anti-avoidance measures. The extent to which this is achievable is highly uncertain, given the lack of information on the tax base in question and the lack of detail regarding the specific policies that they would implement.\(^ {27}\) As we have argued before, funding specified tax giveaways that have

**Figure 3.1. Profiles for total tax revenues compared**

![Graph](image_url)

Note: Assumes Liberal Democrats (and Conservatives) fully implement their proposed increases to the personal allowance (and higher-rate threshold) by 2020–21, i.e. neither is fully implemented in 2019–20. Assumes that each party would raise the amount in revenues that they have pledged to raise from anti-avoidance measures. For the numbers underlying this figure, see Appendix Table A.3.

Source: Authors’ calculations based on parties’ manifestos and associated announcements; Office for Budget Responsibility’s March 2015 *Economic and Fiscal Outlook*.

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\(^{24}\) These are both commitments in *nominal* terms. With inflation, both the personal allowance and the higher-rate threshold would have increased anyway, i.e. the policy is a smaller giveaway than if the figures referred to *real*-terms values.


relatively certain revenue implications using money from highly uncertain takeaways elsewhere comes at the cost of adding risk to the public finances.\textsuperscript{28}

Including their tax avoidance pledge, the Conservatives’ tax proposals are broadly revenue neutral. Assuming that they are able to raise their desired sum from clamping down on tax avoidance, tax revenues as a share of national income would be 36.3\% of national income in 2019–20 (as shown in Figure 3.1). Without their tax avoidance measures, however, the Conservative Party policies (largely driven by the personal tax changes) add up to a tax giveaway of around 0.2\% of national income. This on its own would leave tax revenues at 36.1\% of national income in 2019–20.

\textbf{Labour tax plans}

Labour have announced some tax measures that they have claimed would offset each other, such as the abolition of the married person’s transferable income tax allowance and the (re)introduction of a 10p rate of income tax, and an increase in the rate of corporation tax to pay for business rates cuts for smaller business properties. In addition, they have pledged some small giveaways (e.g. tax rebates for employers signing up to the living wage) and a larger package of tax takeaways. These takeaways include a substantial increase in tax on pension contributions, the (re)introduction of a 50\% top rate of income tax, a new ‘mansion tax’ on residential properties worth over £2 million, a levy on tobacco companies, an increase in the bank levy and a bank bonus tax. Taken together, we estimate that these explicit policies would increase revenues by 0.3\% of national income. On top of this, Labour have also said that they would aim to raise a further £7.5 billion from tax avoidance measures by the middle of the coming parliament.\textsuperscript{29}

Overall, their policies – including their desired tax avoidance measures – amount to an increase in revenues of 0.7\% of national income by 2019–20. This implies revenues in 2019–20 of 36.9\% of national income, still somewhat below the pre-crisis share of 37.5\% in 2007–08. In the absence of their desired avoidance measures, their policies would amount to an increase in revenues of 0.3\% of national income by 2019–20, which would imply revenues in 2019–20 of 36.6\% of national income.

\textbf{Liberal Democrat tax plans}

The Liberal Democrats share the Conservatives’ desire to increase the personal allowance to £12,500 and Labour’s commitment to raise revenues through a charge on residential properties worth over £2 million. In an appendix to their manifesto, they outlined a number of additional measures, including the abolition of the married person’s transferable income tax allowance (a policy shared with Labour), as well as reforms that would raise revenue from corporation tax, capital gains tax and income tax on the dividend income of higher- and additional-rate income tax payers.\textsuperscript{30} In addition to these specific policies, they also have a target of raising £7 billion by 2017–18 from clamping


down on tax avoidance and evasion, rising to £10 billion by 2019–20. The extra amount after 2017–18, which was not explicitly set out in their manifesto, is intended to fund the increase in the personal allowance from £11,000 to £12,500 between 2017–18 and the end of the parliament. However, like the Conservatives and Labour, they provide relatively little concrete detail of what these anti-avoidance measures would be.\footnote{For a list of their policies, see page 42 of https://d3n8a8pro7vhmx.cloudfront.net/libdems/pages/8907/attachments/original/1429028133/Liberal_Democrat_General_Election_Manifesto_2015.pdf?1429028133.}

Overall, these plans amount to a net tax rise of around 0.6% of GDP by 2019–20, though 0.5% of national income is expected to come through – as yet unspecified – tax avoidance measures. Assuming that they could find this revenue, this would leave receipts in 2019–20 at 36.9% of national income (36.4% without the avoidance measures).

**SNP tax plans**

The SNP have set out a package of tax measures, which we estimate would be broadly revenue neutral in 2019–20. Similar to Labour, they have said they would be in favour of reintroducing a 50% rate of income tax on incomes above £150,000, a new bank bonus tax, an increased bank levy and a ‘mansion tax’. They have also said they would reverse the married person’s transferable allowance and levy an additional tax on tobacco companies. The SNP have also announced one main tax giveaway – a plan to increase the employment allowance from £2,000 to £6,000 per employer by 2019–20. They have said that this would cost £3 billion a year when fully implemented. Together, these policies would result in revenues reaching 36.3% of national income by 2019–20.

Unlike the other three parties, the SNP have not factored into their main plans any revenue increase from anti-avoidance measures. Like the other parties, they have said that they believe revenues could be increased further by clamping down on anti-avoidance, but have not targeted a specific figure for this nor used any of these unspecified savings to ‘pay for’ other policies, which the other parties have. If revenues could be boosted by clamping down on tax avoidance, this would increase revenues under the SNP policies above what is shown in Figure 3.1 (and, consequently, reduce borrowing below what is shown in Figure 2.1 or provide them with scope to cut other taxes or to increase spending). Overall, this approach to revenues raised from tax avoidance is more sensible than that employed by the other parties.

**Summary of the parties’ tax plans**

Overall, the Conservatives’ and SNP’s plans imply the lowest revenues as a share of national income by the end of the forecast horizon, although only 0.6% of national income below those implied by the Liberal Democrats’ and Labour plans. The difference between the parties is driven by two major factors. First, there are differences over the package of specific measures they have announced: the Conservatives’ package of policy measures excluding tax avoidance measures amounts to a small giveaway, in contrast to the other parties. Second, Labour and (especially) the Liberal Democrats have pledged to raise larger sums from (largely unspecified) anti-avoidance measures than the Conservatives, while the SNP have not factored in any assumed revenues from such measures. Together, these factors lead to the Labour and Liberal Democrat plans implying a higher level of revenues than the Conservative and SNP plans. However, one could dispute whether differences in the sums pledged through tax avoidance measures represent a meaningful
difference between the parties, since there might well be a cross-party consensus that it is desirable to minimise tax avoidance and evasion where possible.

This suggests that, including the contribution of a cyclical recovery of tax revenues to deficit reduction as well as the effects of coalition policies already announced, higher tax revenues would contribute most to deficit reduction under Labour and the Liberal Democrats (a contribution of 1.1% of national income) and least under the Conservatives and SNP (0.6% and 0.5% of national income respectively).

4. Cutting borrowing by … spending less?

Conservative spending plans

The Conservatives’ manifesto was relatively explicit about their plans for total public spending over the next parliament:

• ‘continue to reduce government spending by one per cent each year in real terms for the first two full financial years of the next Parliament’;

• ‘continuing to control government spending in 2018–19, no longer cutting it in real terms, but instead growing it in line with inflation’;

• ‘from 2019–20, after a surplus has been achieved, spending will grow in line with GDP’.

Assuming that the Conservatives implement the coalition’s plans for spending in 2015–16 (a real cut of £4.6 billion or 0.6%), these plans imply that total public spending would be roughly the same level (0.3% lower) in real terms in 2019–20 as it was in 2014–15. However, as illustrated in Figure 4.1, the profile for real-terms spending is far from flat. The Conservative plans imply a real cut to total spending of £19.4 billion between 2014–15 and 2018–19 (or 2.6%), followed by a real-terms spending increase of £16.9 billion (or 2.3%) in 2019–20.

While total spending ends up at roughly the same level as it was at in 2014–15 in real terms, growth in national income over the period means it would decline as a share of national income by 4.6 percentage points (from 40.7% of national income in 2014–15 to 36.1% in 2019–20), as illustrated in Figure 4.2. This would take spending back to around the same share of national income as last seen in 2000–01.

Labour spending plans

Labour’s manifesto did not set out their full plans for the level of future public spending. However, we can derive a path for spending under the Labour plans based on a number of pieces of information from their manifesto, and some additional assumptions. As a starting point, we assume that Labour would adhere to the spending plans laid out by the coalition government for 2015–16.

Labour’s manifesto suggests that, thereafter, they would cut spending on public services (outside of the protected areas of health, education and international development) until they reach their target of a surplus on the current budget. They have also set out explicit plans for spending on the protected areas of health, education and international

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33 Page 17 of http://b.3cdn.net/labouruk/e1d45da42456423b8c_vwm6brbvb.pdf.
development (discussed in more detail in Section 6). Taking these plans, together with the OBR forecasts for non-departmental spending, Labour’s stated policies for changes to social security spending (described in Section 5) and an estimate of the additional debt interest incurred by implementing Labour’s plans, we can calculate figures for total spending in 2016–17, 2017–18 and 2018–19. To be precise, we assume that Labour would do the maximum level of spending that is consistent with their statement: that is, we assume they would hold ‘unprotected’ spending constant in real terms until a current budget balance is achieved, which we estimate would be in 2018–19.

Beyond 2018–19, we assume that Labour would continue to maintain a current budget balance. This assumption, combined with Labour’s stated tax policies (described in Section 3), allows us to calculate an implied level of total public spending in 2019–20. Again, this is the maximum level of spending that would be consistent with their target for a ‘surplus’ on the current budget, given their tax plans.

Figure 4.1. Profiles for total spending compared (real terms, 2015–16 prices)

Note: For the numbers underlying this figure, see Appendix Table A.4.
Source: Authors’ calculations based on parties’ manifestos and associated announcements; Office for Budget Responsibility’s March 2015 Economic and Fiscal Outlook.

Figure 4.2. Profiles for total spending compared (% of national income)

Note: For the numbers underlying this figure, see Appendix Table A.4.
Source: Authors’ calculations based on parties’ manifestos and associated announcements; Office for Budget Responsibility’s March 2015 Economic and Fiscal Outlook.
Post-election austerity

These calculations suggest that total public spending could be around £42.8 billion (or 5.7%) higher in real terms in 2019–20 than it was in 2014–15. This would, however, equate to a fall in spending as a share of national income, by around 2.4 percentage points between 2014–15 and 2019–20. This would reduce public spending as a share of national income to slightly below the level last seen in 2003–04.

Liberal Democrat spending plans

The Liberal Democrats have outlined specific policies affecting spending and taxes up to 2017–18, which together imply a path for total spending up to that year. Assuming that they would implement the coalition’s plans for spending cuts in 2015–16, their policies imply spending falling as a share of national income from 40.7% in 2014–15 to 37.9% in 2017–18 (equivalent to a real-terms cut of £1.8 billion in 2015–16 prices).

In their manifesto, the Liberal Democrats say that ‘Once we have balanced the books, we will ensure that overall public spending grows again in line with the economy’,34 In other words, they would maintain spending as a share of the economy at 37.9% up to 2019–20, equivalent to a real-terms increase of £35.4 billion between 2017–18 and 2019–20. This would see public spending as a share of national income in 2018–19 and 2019–20 at the level last seen in around 2002–03.

SNP spending plans

The SNP have set out a specific plan for how spending would evolve over the next parliament. Their manifesto proposes ‘modest spending increases – of 0.5 per cent above inflation – in each year of the next Parliament’, and that this would imply that ‘In total, over £140 billion of additional public expenditure and investment would be available during the next parliament, compared to current UK government plans’.35 Figures 4.1 and 4.2 show what these commitments from the SNP mean for total spending in real terms and as a share of national income, respectively.36 They show that total spending would grow in real terms under the SNP plans by £28.8 billion between 2014–15 and 2019–20, but fall by 3.1 percentage points as a share of national income. Between 2015–16 and 2018–19, the SNP plans imply almost exactly the same level of total spending as Labour’s plans. However, the SNP plans for slower growth in public spending in 2019–20 than planned by any of the other three parties would result in them having a lower level of total spending than planned by Labour, and slightly lower than planned by the Liberal Democrats, but still higher than planned by the Conservatives. This is despite their manifesto stating ‘We reject the current trajectory of spending, proposed by the UK government and the limited alternative proposed by the Labour Party’.37

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36 What the SNP commitment actually is and how it translates into these figures for total spending is a little convoluted. We have corresponded with the SNP to check that our interpretation of their pledge, and thus the figures shown in this briefing note, are correct.
Summary of the parties’ spending plans

Of the parties described, the Conservatives’ plans imply the lowest spending as a share of national income in 2019–20 and Labour’s plans are consistent with the highest. Cuts to public spending as a share of national income are therefore contributing the most to deficit reduction under the Conservatives’ proposals (4.6% of national income), compared with 3.1% of national income under the SNP plans, 2.8% of national income under the Liberal Democrat plans and 2.4% of national income under Labour’s plans. It is worth noting that despite the cuts to spending as a share of national income proposed by all parties (Figure 4.2), economic growth over this period is such that the Labour, Liberal Democrat and SNP plans still imply increasing total spending in real terms over the parliament as a whole (by £42.8 billion, £33.7 billion and £28.8 billion, respectively), while the Conservatives’ plans imply a small real-terms cut (of £2.5 billion). However, this overall picture masks quite different proposals for different areas of public spending. The next two sections therefore consider the parties’ plans for social security spending and public service spending.

5. Spending less … on social security?

The OBR forecast in the March 2015 Budget that, under current policy, spending on benefits, state pensions and tax credits (referred to in this briefing note as social security spending) would increase by 0.4% in real terms (or £0.9 billion in 2015–16 prices) between 2014–15 and 2019–20. However, since the economy is forecast to grow by 12.3% in real terms over this period, social security spending is forecast to fall by 1.3% of national income over the next parliament in the absence of any further policy announcements.38

This path of social security spending influences how the changes in total public spending (set out in Figures 4.1 and 4.2) would feed through into other areas of non-social security public spending – in particular, departmental spending on public services. The path of social security spending over the next parliament will depend not only on existing policy and underlying trends (which are captured by the OBR’s latest forecast) but also on any new proposals set out in the parties’ manifestos. In this section, we briefly describe the proposed net exchequer effects of the social security policies proposed by each of the parties. In Section 6, we describe the implications of these plans, combined with the plans for overall spending, for spending on public services under each of the parties.

Conservative social security plans

The Conservatives have said that they will implement £12 billion of cuts to the social security budget by 2017–18. In their manifesto, they set out three specific policies: a two-year freeze on the rates of various working-age benefits, lowering the household benefits cap and some changes to benefit entitlements for 18- to 21-year-olds. Together, these policies would save around £1.3 billion from the social security budget by 2017–18, leaving over £10 billion of cuts yet to be specified.

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38 This section refers to social security spending in annually managed expenditure (AME) and as referred to by the OBR, i.e. it excludes spending by local authorities and housing associations (around £0.5 billion a year) and some social security spending included in departmental expenditure limits, DEL (around £1.8 billion in 2019–20).
Under the assumption that the Conservatives would be able to find their desired £12 billion of cuts by 2017–18 and assuming that half of these were in place in 2016–17, Figure 5.1 shows the implied path of social security spending under the Conservatives — falling in real terms from £217.5 billion in 2014–15 to £205.8 billion in 2017–18. Social security spending in real terms would still be well above its pre-crisis level, and indeed its level at any point prior to that. As a share of national income (Figure 5.2), social security spending would be cut by 1.9 percentage points between 2014–15 and 2019–20, taking it to 10.0% of national income — around the share it was at the very beginning of the 2000s.

Figure 5.1. Social security spending: the parties’ plans compared (real terms, 2015–16 prices)

Note: For the numbers underlying this figure, see Appendix Table A.5.
Source: Authors’ calculations based on the OBR’s Economic and Fiscal Outlook: March 2015 and election 2015 manifestos from each of the parties. Refer to the text for a description of the assumptions made. Historical numbers derived using the Department for Work and Pensions (DWP)’s 2015 Benefit Expenditure Tables.

Figure 5.2. Social security spending: the parties’ plans compared (% of national income)

Note: For the numbers underlying this figure, see Appendix Table A.5.
Source: Authors’ calculations based on the OBR’s Economic and Fiscal Outlook: March 2015 and election 2015 manifestos from each of the parties. Refer to the text for a description of the assumptions made. Historical numbers derived using the DWP 2015 Benefit Expenditure Tables.
Finding a further £10 billion of cuts to social security spending will entail some very difficult choices. A chapter in the February 2015 IFS Green Budget sets out some possible measures that would reduce social security spending, while a more recent IFS observation discusses the measures considered in a document leaked from the Department for Work and Pensions to the BBC. A companion briefing note provides further discussion of the measures announced by the Conservatives in their manifesto.

**Labour social security plans**

Labour have announced a number of relatively small measures affecting social security spending. Their proposed increases in some elements of social security spending – in particular, through abolishing the ‘under-occupancy’ charge for social tenants and introducing a new compulsory jobs guarantee – are partially offset by proposed cuts to winter fuel payments for those paying higher and additional rates of income tax. Overall, their planned social security policies amount to a net increase in social security spending of around £1 billion each year relative to the coalition government’s plans (and hence £13 billion more than implied by the Conservatives’ plans).

**Liberal Democrat social security plans**

The Liberal Democrats have said that they would cut social security spending by £3 billion by 2017–18, relative to current government plans. They have proposed a small number of increases in social security spending – specifically, the abolition of the ‘under-occupancy’ charge for some social tenants and some increases in benefit entitlements for carers. The vast majority of their planned cut to social security spending is to come from reducing fraud and error in the system (which they have estimated could raise £1 billion a year) and getting more people back into work and off benefits (which they estimate could save another £1 billion a year). Both of these figures are subject to significant uncertainty and achieving either may well require significant up-front investment to realise these longer-term savings. In any case, neither is likely to represent a true difference between the Liberal Democrats and the Conservatives, Labour or the SNP. If the Liberal Democrats are able to reduce social security spending in the way they suggest, Figure 5.1 shows that this would result in social security spending falling from £217.5 billion in 2014–15 to £214.8 billion in 2017–18, and then remaining at around the same level in the following two years.

**SNP social security plans**

Of all the parties, the SNP have set out the most substantial package of increases in social security spending. Like the Labour Party, they propose scrapping the ‘under-occupancy’ charge for social renters and extending paid paternity leave. They have also proposed

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reversing planned cuts to disability living allowance, increasing the work allowance in
universal credit by 20%, increasing the rate of carer’s allowance and reintroducing the
pension credit savings credit. Overall, this package of measures would amount to around
£4.5 billion of extra social security spending in 2019–20 (in real terms), or around 0.2%
of national income extra spending on this area. We estimate that, incorporating these
policies, social security spending would increase from £217.5 billion in 2014–15 to
£222.9 billion by 2019–20. Social security spending would, however, still fall as a share of
national income – from 11.9% to 10.8% over this period.

Summary of the parties’ social security spending plans

The latest forecast from the OBR was that, in the absence of any policy changes, social
security spending would rise only very slightly in real terms and would fall by 1.3% of
national income between 2014–15 and 2019–20. The Conservatives have proposed the
largest (though largely unspecified) additional cuts to social security spending, with
discretionary measures amounting to cuts of £12 billion in real terms, which (if achieved)
would increase the cut to social security spending over the next parliament to 1.9% of
national income. The Liberal Democrats have also announced a small net social security
cut, of around £2 billion in real terms up to 2019–20, which (if achieved) would result in a
1.4% of national income fall in social security spending. Labour and the SNP, on the other
hand, have announced policies that increase spending on social security (with packages
amounting to giveaways of around £1 billion and £5 billion, respectively) and that
therefore reduce the fall in social security spending as a share of national income to 1.2%
and 1.0% of national income respectively between 2014–15 and 2019–20.

6. Spending less … on public services?

With the exception of the Liberal Democrats (who have spelt out plans up to 2017–18),
the main political parties have not been transparent about how much they would cut
spending on public services in the next parliament. (Labour have explicitly said that they
would cut ‘unprotected’ departments’ budgets until the current budget returns to
balance, but they have not spelt out by how much.) However, for each party, we can back
out their implied plans for departmental spending using:

- their explicit or implicit plans for total spending (discussed in Section 4);
- their announced social security policies combined with the OBR forecasts for future
  social security spending in the absence of policy change (discussed in Section 5);
- an estimate of future debt interest spending, given their implicit borrowing plans
  (discussed in Section 2);
- OBR forecasts for other non-departmental spending (i.e. non-departmental spending
  excluding social security and debt interest) in the absence of policy change.

This calculation is discussed for each party below, and the results are summarised in
Table 6.1, Figure 6.1 and Figure 6.2. We then describe for each party which areas of
departmental spending they have pledged to ‘protect’ and what the implications are for
other areas of spending.
Total departmental spending plans

Conservatives

The plans set out in the Conservatives’ manifesto illustrate that they are planning to cut total spending by £2.5 billion in real terms between 2014–15 and 2019–20. However, within that, there are very different changes for different areas of public spending. As previously described, the net effect of policy measures and underlying changes to social security spending is to cut this item of spending by £11.3 billion in real terms over the period. In contrast, we estimate that spending on debt interest will increase by £13.7 billion in real terms (as a result of borrowing in future years and future increases in interest rates), and the latest OBR forecasts are for spending on other areas of non-departmental spending to increase by £7.1 billion. This therefore implies that departmental spending under the Conservative Party plans would be cut by £11.9 billion (in 2015–16 prices) between 2014–15 and 2019–20 (as set out in Table 6.1).

Figure 6.1 illustrates the implied profile for this reduction in departmental spending. If the Conservative Party sticks to the plans inherited from the coalition government, real departmental spending will fall by £2.2 billion between 2014–15 and 2015–16. The Conservative plans then imply further cuts of £23.8 billion between 2015–16 and 2018–19, meaning that by 2018–19 departmental spending will have been cut by 7.1% from its 2014–15 level. This would equate to an average cut of 1.8% per year between 2014–15 and 2018–19, a slightly slower pace of cuts over this period as a whole than the average 2.4% per year cut between 2010–11 and 2014–15.

Table 6.1. Implied changes to departmental spending on public services

<table>
<thead>
<tr>
<th>Change 2014–15 to 2019–20</th>
<th>Conservatives</th>
<th>Labour</th>
<th>Liberal Democrats</th>
<th>SNP</th>
</tr>
</thead>
<tbody>
<tr>
<td>£ billion (2015–16 prices)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total spending</td>
<td>–2.5</td>
<td>+42.8</td>
<td>+33.7</td>
<td>+28.8</td>
</tr>
<tr>
<td>of which:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Social security</td>
<td>–11.3</td>
<td>+1.5</td>
<td>–1.5</td>
<td>+5.5</td>
</tr>
<tr>
<td>Debt interest</td>
<td>+13.7</td>
<td>+15.8</td>
<td>+15.0</td>
<td>+16.2</td>
</tr>
<tr>
<td>Other non-departmental spending</td>
<td>+7.1</td>
<td>+7.1</td>
<td>+7.1</td>
<td>+7.1</td>
</tr>
<tr>
<td>Departmental spending</td>
<td>–11.9</td>
<td>+18.4</td>
<td>+13.2</td>
<td>–0.0</td>
</tr>
<tr>
<td>Percentage</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total spending</td>
<td>–0.3</td>
<td>+5.7</td>
<td>+4.5</td>
<td>+3.9</td>
</tr>
<tr>
<td>of which:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Social security</td>
<td>–5.2</td>
<td>+0.7</td>
<td>–0.7</td>
<td>+2.5</td>
</tr>
<tr>
<td>Debt interest</td>
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<td>+45.1</td>
<td>+42.8</td>
<td>+46.4</td>
</tr>
<tr>
<td>Other non-departmental spending</td>
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<td>+5.5</td>
<td>+5.5</td>
</tr>
<tr>
<td>Departmental spending</td>
<td>–3.3</td>
<td>+5.0</td>
<td>+3.6</td>
<td>0.0</td>
</tr>
</tbody>
</table>

Note: The change in spending between 2014–15 and 2019–20 can be quite different from the change in spending between 2014–15 and intermediate years in the next parliament. This is illustrated for total spending in Figure 4.1, social security spending in Figure 5.1 and departmental spending in Figure 6.1. ‘Other non-departmental spending’ is defined as total spending excluding departmental spending, social security spending and public sector gross debt interest spending. It includes many small areas of spending that are not immediately under the discretionary control of central government (for example, self-financed spending by local authorities, net public service pension payments and transfers to the EU).

Source: Authors’ calculations based on HM Treasury’s 2015 Budget, the March 2015 Economic and Fiscal Outlook and the plans set out by the parties in their manifestos.
In 2019–20, the Conservatives are planning to increase total public spending (as described in Section 4); this would imply that departmental spending would increase by £14.1 billion, given the projected growth in non-departmental spending. This would leave departmental spending £11.9 billion (or 3.3%) lower in real terms in 2019–20 than the level it was at in 2014–15. Departmental spending in 2019–20 would amount to £354 billion, around the level it was in real terms in 2004–05. As a share of national income, departmental spending would be 17.2% in 2019–20 (as shown in Figure 6.2), slightly higher than its share in 2018–19, but otherwise at its lowest share of national income since 1997–98, when this definition of departmental spending was introduced.

Figure 6.1. Profiles for total departmental spending compared (real terms, 2015–16 prices)

Note: For the numbers underlying this figure, see Appendix Table A.6.
Source: Authors’ calculations based on parties’ manifestos and associated announcements; Office for Budget Responsibility’s March 2015 Economic and Fiscal Outlook.

Figure 6.2. Profiles for total departmental spending compared (% of national income)

Note: For the numbers underlying this figure, see Appendix Table A.6.
Source: Authors’ calculations based on parties’ manifestos and associated announcements; Office for Budget Responsibility’s March 2015 Economic and Fiscal Outlook.
If the Conservatives are not able to implement the full £12 billion of cuts to social security spending that they want to achieve, then either they would have to increase total spending above their current plans or the cuts to departmental spending would have to be larger than described here. If, for example, the Conservatives only implemented the specific cuts to social security set out in their manifesto (raising just over £1 billion), the cuts to departmental spending would need to be £22.8 billion between 2014–15 and 2019–20, rather than £11.9 billion.

Labour

As previously described, the Labour Party could spend up to £43 billion more in real terms (2015–16 prices) in 2019–20 than in 2014–15 and still be compliant with its plans to eliminate the current budget deficit by the end of the parliament. Within that, social security spending looks set to increase by £1.5 billion, given Labour's policies and the OBR's forecast for the underlying change in social security spending. The profile we assume for Labour's cuts to borrowing implies debt interest spending would increase by £15.8 billion between 2014–15 and 2019–20 under Labour. Given the £7.1 billion increase in other areas of spending, this would leave an £18.4 billion real increase in the level of departmental spending between 2014–15 and 2019–20 under Labour.

As shown in Figure 6.1, most of this increase would come in the last year. Under the assumption that current budget balance is reached in 2018–19, there would only be scope for departmental spending to be £2.8 billion higher in that year than the level it was in real terms in 2014–15. This would be an increase of 0.8%, or an average real increase of 0.2% per year. However, just as under the Conservative Party plans, the profile of borrowing we assume for Labour (consistent with their stated aims) implies a sharp increase in departmental spending in 2019–20 (of £15.6 billion in real terms).

Liberal Democrats

The Liberal Democrats have been specific about their planned overall cuts to departmental spending in the first two full years of the next parliament.43 Assuming they stick to the coalition government's plans for 2015–16, then under their plans departmental spending would be cut by £12.5 billion in real terms between 2014–15 and 2017–18 (a reduction in the level of spending of 3.4%) – as shown in Figure 6.1. This would be an average cut of 1.2% per year between 2014–15 and 2017–18, around half the pace of cuts experienced in the current parliament (between 2010–11 and 2014–15, real departmental spending was cut by an average 2.4% per year).

The Liberal Democrat manifesto pledged that ‘Once we have balanced the books, we will ensure that overall public spending grows again in line with the economy’.44 Given the Liberal Democrat policies on social security, our estimates of debt interest spending and the OBR’s forecasts for underlying social security spending and other non-departmental spending, we estimate that this would imply departmental spending growing by £25.7 billion (in 2015–16 prices) between 2017–18 and 2019–20. Taking the parliament as a whole, this means departmental spending under the Liberal Democrats would be £13.2 billion (or 3.6%) higher in real terms in 2019–20 than it was in 2014–15.


SNP
The plans set out in the SNP manifesto imply that they would increase total spending in real terms by £28.8 billion (or 3.9%) between 2014–15 and 2019–20. Given the SNP’s policies on social security, our estimates of debt interest spending and the OBR’s forecasts for underlying social security spending and other non-departmental spending, we estimate that this would imply departmental spending being the same in real terms in 2019–20 as in 2014–15, as shown in Figure 6.1 and Table 6.1. The SNP plans – unlike those of all three other parties – do not imply an increase in departmental spending in real terms in 2019–20.

Protected versus unprotected departments
While most of the main political parties have not been specific about their plans for the overall level of spending on public services, they have all been keen to announce the ‘protection’ of spending in certain areas, and in some cases to announce new publicly-funded services or the expansion of existing services. Below, we describe these policies for each party and illustrate the consequences for other public services.

Conservatives
The Conservative manifesto pledged to protect three areas of departmental spending: 45

• International development: ‘uphold our commitment to spend 0.7 per cent of gross national income on international development’.

• Schools: ‘the amount of money following your child into school will be protected. As the number of pupils increases, so will the amount of money in our schools. On current pupil number forecasts, there will be a real-terms increase in the schools budget in the next Parliament. We will continue to provide the pupil premium, protected at current rates.’

• Health: ‘spend at least an additional £8 billion by 2020 over and above inflation to fund and support the NHS’s own action plan for the next five years’.

These commitments would increase real spending on the NHS in 2019–20 by £8.0 billion (or 7.0%) compared with 2014–15 and real spending on aid by £1.5 billion (given current economic growth forecasts). Real non-investment spending on schools would be £0.7 billion higher in 2019–20 than in 2014–15. In addition, the Conservatives have announced they would provide 30 hours per week of free childcare for all 3- and 4-year-olds with working parents, which they estimate would cost £350 million.46

Taken together, these protections and the childcare policy amount to a real increase in spending of £10.6 billion by 2019–20 compared with 2014–15. Given that the Conservative plans imply a cut of £11.9 billion to overall departmental spending over this period, this means that a cut of £22.5 billion would be required to other areas of departmental spending. This would be a cut of 11.2% to ‘unprotected’ departmental spending between 2014–15 and 2019–20 (much larger than the 3.3% cut to overall departmental spending).


46 The Conservatives’ costing is sourced as being from HM Treasury and suggests a gross cost of this policy of £750 million partially offset by savings within annually managed expenditure (AME) from reduced spending on childcare tax credits and tax-free childcare.
Focusing on the period from 2015–16 to 2018–19, we assume the protections above imply additional real-terms spending of £6.2 billion. Given overall departmental spending is implied to be cut by £23.8 billion between 2015–16 and 2018–19, this implies the real cuts to ‘unprotected’ departmental spending over this period would amount to £30.0 billion, or 15.3%.

The Conservatives’ manifesto states that they ‘plan a further £10 billion annual [efficiency] savings by 2017–18 and £15–20 billion in 2019–20’. To the extent that any such efficiency savings can be realised, this would ease the budgetary pressure facing departments. But at best these statements are aspirational. If efficiency savings were easy to identify and to deliver, then – presumably – either they would have been realised already or we could reasonably expect whoever forms the next government to ensure they are implemented. We discount them in this analysis.

**Labour**

The Labour Party manifesto affirmed commitments to protect similar areas of spending to the Conservatives:

- **International development**: ‘We are proud that Labour MPs passed the historic law that commits Britain to spend 0.7 per cent of our gross national income on international development’.
- **Education**: ‘We will protect the entire education budget, including the early years, schools and post-16 education, so that it rises in line with inflation’.
- **Health**: ‘Labour will invest £2.5 billion more than the Conservatives’.

We estimate that these commitments would increase real spending on aid in 2019–20 by £1.5 billion (2015–16 prices) compared with 2014–15 and real spending on the NHS by £4.2 billion (3.7%). This would be, by historical standards, a very tight settlement for the NHS and it would not be surprising if a Labour government were to increase spending by more than this.

Labour have also announced some other policies that cost additional money. They have pledged to cut the tuition fee cap for university courses from £9,000 to £6,000, which they estimate would cost £2.7 billion. They have also pledged to provide 25 hours of free childcare per week to all 3- and 4-year-olds with working parents, which we assume would cost £500 million.

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49 We interpret this to mean £2.5 billion above 2015–16 levels.

50 Of this, £1.7 billion is from the coalition plans for increasing NHS spending in 2015–16, with the remainder coming from Labour’s specific pledges.


52 Labour use a costing for this policy of £800 million. This costing ignores any savings from childcare tax credits and tax-free childcare, which they wish to spend on boosting paternity leave. However, this costing from Labour appears inconsistent with the (gross) costing produced by the Conservatives of their (more generous) childcare policy. The Conservatives have estimated that their policy (of providing 30 hours of free childcare per week to the same group) would have a gross cost of £750 million. For consistency between the parties, we assume the Conservatives’ costing is broadly correct and, on this basis, assume the Labour policy would cost £500 million (gross of any savings in childcare tax credits and tax-free childcare) to implement (i.e. assuming the Labour policy is two-thirds as generous as the Conservative one).
Post-election austerity

Taken together, these protections and the tuition fee and childcare policies amount to a real increase in spending of £10.3 billion by 2019–20 compared with 2014–15. Given that Labour’s plans are consistent with increasing total departmental spending by £18.4 billion between 2014–15 and 2019–20, these commitments could leave up to an £8.1 billion (or 4.5%) increase in real spending on ‘unprotected’ areas. Labour have not spelt out how they would allocate this extra spending (or indeed whether they would instead use it to reduce the deficit by more than their stated goal requires).

Focusing on the period 2015–16 to 2018–19, we assume these protections would amount to a real spending increase of £6.2 billion. Given that Labour’s plans imply total departmental spending only increasing by £5.0 billion over this period, this would require real-terms cuts to ‘unprotected’ areas over this period of £1.2 billion (or 0.7%).

**Liberal Democrats**

The Liberal Democrats have also pledged to protect broadly the same three areas of departmental spending as Labour and the Conservatives; 53

- **International development:** ‘We will … maintain our commitment to spend 0.7% of UK Gross National Income on overseas development’.

- **Education:** ‘protect spending on 2-19 year-olds in real terms until 2017-18 …. From 2018-19 onwards we will then increase 2-19 year-old funding in line with economic growth.’

- **Health:** ‘NHS funding in England will be at least £8 billion higher a year in real terms by 2020’.

This implies an additional £1.5 billion spending on international development in 2019–20 compared with 2014–15, an additional £8.2 billion on the NHS and an additional £1.7 billion on education (all in 2015–16 prices). The Liberal Democrats have also pledged to provide free childcare to all 2-year-olds, which we assume would have a net cost of around £400 million.

Taken together, these protections and the childcare policy amount to a real increase in spending of £11.7 billion by 2019–20 compared with 2014–15. Given that, under Liberal Democrat plans, total departmental spending would increase by £13.2 billion between 2014–15 and 2019–20, these protections would imply an increase in ‘unprotected’ spending of £1.4 billion, or 0.8%.

However, the Liberal Democrats are aiming to achieve their planned borrowing reduction by 2017–18. Focusing on the period 2015–16 to 2017–18, their plans imply a real cut to total departmental spending of £10.3 billion, or 2.8%. Assuming the above commitments amount to additional spending of £1.4 billion in real terms over this period, this would imply cuts to ‘unprotected’ spending of £11.8 billion, or 6.3%.

The Liberal Democrats also have an ‘ambitious aspiration’ to provide free childcare to all parents with children aged 2 to 4 and to all working parents with children aged from 9 months to 2 years. They estimate that this could cost around £2 billion: if this policy were implemented, further cuts would be required to ‘unprotected’ departmental spending.

**SNP**

The SNP manifesto explicitly pledged protection for two of the three main public service areas that the other three parties have also pledged to ‘protect’:\(^{54}\)

- **International development**: ‘we have long supported the United Nations target to spend 0.7 per cent of Gross National Income (GNI) on international development’.

- **Health**: ‘we will argue for increases in health spending across the UK of £9.5 billion above inflation by 2020–21’.

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### Box 6.1. Barnett consequentials for Scotland of the parties’ spending plans

Conventionally, the budgets of the devolved administrations of Scotland, Wales and Northern Ireland have been determined using the Barnett formula. The Barnett formula is designed to apply the same pounds-per-head nominal change in ‘comparable English spending’ to Scotland, Wales and Northern Ireland, where ‘comparable English spending’ is spending in England on functions that are devolved.

It is not possible to calculate exactly what the budgets of the devolved administrations would be in the next parliament under each party’s proposed spending plans. This is because we do not know how each party would allocate spending between all the Whitehall spending departments, and the Conservative, Labour and Liberal Democrat parties have all pledged in their manifestos to introduce some sort of ‘funding floor’ for Wales. However, we can give a broad sense of how the budget allocation for Scotland might differ under the different parties’ departmental spending plans (the budget for Wales will obviously depend heavily on the form of the ‘funding floor’ adopted). We do this by assuming that each party would allocate departmental spending such that all ‘unprotected’ departments experience the same percentage cuts to their non-investment budgets as each other and the same percentage cuts to their investment budgets as each other.

In this illustrative scenario, the block grant for Scotland would be cut under the Conservatives between 2015–16 and 2019–20, but by slightly less than the overall cut to departmental spending. In contrast, under Labour and the Liberal Democrats, the block grant for Scotland would increase, but by less than the increase in total departmental spending. (In part, this arises from how the Barnett formula works: the level of spending per head is greater in Scotland than in England, and so the same pounds-per-head increase in spending would represent a smaller proportionate budget increase for Scotland.) In fact, the block grant for Scotland would be increased by slightly more under the Liberal Democrats than under Labour in this illustrative scenario, despite their slightly smaller increase in overall departmental spending, because the Liberal Democrats have pledged greater increases than Labour in spending on the NHS and education (which both count as ‘comparable English spending’). The SNP plans imply lower growth in total departmental spending between 2015–16 and 2019–20 than the Labour and Liberal Democrat plans. This, combined with the fact that the SNP have not pledged to protect education spending (which is ‘comparable English spending’), actually results, in this illustrative scenario, in a small cut in the block grant for Scotland under their plans.

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This implies an additional £1.5 billion spending on international development in 2019–20 compared with 2014–15 and an additional £8.7 billion on the English NHS (both in 2015–16 prices).\(^5\) The SNP have made no explicit commitments to protecting spending on education.

Given that the SNP plans imply essentially a real freeze in total departmental spending over this period, the protections outlined above would require cuts of £10.2 billion (or 4.3%) in real terms to be made to ‘unprotected’ departments. Relative to 2015–16, the SNP plans imply an increase in total departmental spending of £2.2 billion (or 0.6%). Assuming the protections above amount to £8.2 billion relative to 2015–16, this would imply real cuts to ‘unprotected’ departments over the period 2015–16 to 2019–20 of £6.0 billion, or 2.5%.

### Summary of the parties’ departmental spending plans

A summary of the parties’ plans for departmental spending is shown in Table 6.2. The Conservatives are the only party whose plans imply departmental spending will be lower in real terms in 2019–20 than it was in 2014–15. Their plans imply a reduction in real departmental spending over the parliament of 3.3%, or a cut since 2010–11 of 12.1%. The SNP plans imply departmental spending will be roughly the same level by the end of the parliament as in 2014–15 (therefore a cut of 9.1% since 2010–11). The Liberal Democrats and Labour are both planning real increases in departmental spending over the parliament as a whole, of 3.6% and 5.0% respectively (reducing the real-terms cut since 2010–11 to 5.9% and 4.6% respectively).

### Table 6.2. Total real-terms cuts to departmental spending

<table>
<thead>
<tr>
<th></th>
<th>Conservatives</th>
<th>Labour</th>
<th>Liberal Democrats</th>
<th>SNP</th>
</tr>
</thead>
<tbody>
<tr>
<td>All departments</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2010–11 to 2014–15</td>
<td>−9.1%</td>
<td>−9.1%</td>
<td>−9.1%</td>
<td>−9.1%</td>
</tr>
<tr>
<td>2014–15 to end of consolidation</td>
<td>−7.1%</td>
<td>+0.8%</td>
<td>−3.4%</td>
<td>+0.0%</td>
</tr>
<tr>
<td>2014–15 to 2019–20</td>
<td>−3.3%</td>
<td>+5.0%</td>
<td>+3.6%</td>
<td>+0.0%</td>
</tr>
<tr>
<td>2010–11 to end of consolidation</td>
<td>−15.6%</td>
<td>−8.4%</td>
<td>−12.2%</td>
<td>−9.1%</td>
</tr>
<tr>
<td>2010–11 to 2019–20</td>
<td>−12.1%</td>
<td>−4.6%</td>
<td>−5.9%</td>
<td>−9.1%</td>
</tr>
<tr>
<td>Excluding aid, NHS and all education spending</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2010–11 to 2014–15</td>
<td>−18.1%</td>
<td>−18.1%</td>
<td>−18.1%</td>
<td>−18.1%</td>
</tr>
<tr>
<td>2014–15 to end of consolidation</td>
<td>−17.9%</td>
<td>−1.8%</td>
<td>−9.0%</td>
<td>−5.0%</td>
</tr>
<tr>
<td>2014–15 to 2019–20</td>
<td>−11.5%</td>
<td>+6.2%</td>
<td>−0.2%</td>
<td>−5.0%</td>
</tr>
<tr>
<td>2010–11 to end of consolidation</td>
<td>−32.8%</td>
<td>−19.6%</td>
<td>−25.5%</td>
<td>−22.2%</td>
</tr>
<tr>
<td>2010–11 to 2019–20</td>
<td>−27.6%</td>
<td>−13.0%</td>
<td>−18.3%</td>
<td>−22.2%</td>
</tr>
</tbody>
</table>

Note: For all parties, we assume that investment spending on ‘unprotected’ education grows at the same rate as total investment spending by departments, while non-investment spending on ‘unprotected’ education grows at the same rate as non-investment spending excluding aid, the NHS and ‘protected’ education.

Source: Authors’ calculations based on parties’ manifestos and associated announcements; Office for Budget Responsibility’s March 2015 Economic and Fiscal Outlook.

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\(^5\) The SNP pledge to spend £9.5 billion more relates to spending on the NHS across the UK, rather than across England, which the other parties’ pledges apply to. Therefore the figure we derive for additional spending on the NHS in England (£8.7 billion) is somewhat lower than the headline SNP figure – for a discussion of Barnett consequentials of English spending pledges, see Box 6.1.
However, since (with the exception of the SNP) the parties’ plans imply cutting or freezing real departmental spending in the early years of the parliament and then increasing it later on, these figures to some extent understate the pressures faced by departments over the next parliament. Table 6.2 therefore also sets out for each party the cut to real departmental spending required between 2014–15 and the point at which the party in question first achieves its planned borrowing reduction, referred to as the ‘end of consolidation’: this is 2017–18 for the Liberal Democrats, 2018–19 for Labour and the Conservatives, and 2019–20 for the SNP. (As can be seen from Figure 6.1, for the Conservatives and the Liberal Democrats this is the point in the next parliament at which the planned cut to departmental spending in real terms is at its greatest, before they plan to start increasing spending in real terms again.)

The Conservative plans imply cuts to departmental spending of 7.1% between 2014–15 and 2018–19, which would bring the real-terms cut since 2010–11 to 15.6%. The Liberal Democrat plans imply real cuts between 2014–15 and 2017–18, of 3.4%, which would take the total cut since 2010–11 to 12.2%. The Labour plans imply a small (0.8%) increase in real departmental spending between 2014–15 and 2018–19, meaning the cut between 2010–11 and 2018–19 would amount to 8.4%.

Finally, even these figures understate the pressures likely to be faced by many departments in the next parliament, since (as described above) the parties have all pledged to protect some large areas of spending. Table 6.2 therefore also summarises the potential outlook for departmental spending outside of aid, the NHS and education under each of the parties’ plans, i.e. on a consistent measure of unprotected spending for all parties. (Since not all parties have pledged to protect the entire education budget, and the SNP have not pledged to protect it at all, we must make an assumption about the growth in ‘unprotected’ education spending. For all parties, we assume that investment spending on ‘unprotected’ education grows at the same rate as total departmental investment spending, while non-investment spending on ‘unprotected’ education grows at the same rate as non-investment spending excluding aid, the NHS and ‘protected’ education.)

Spending outside of the NHS, education and aid has already been cut by 18.1% between 2010–11 and 2014–15. Over the next parliament as a whole, this departmental spending could be cut by a further 11.5% under the Conservatives and by 5.0% under the SNP; it could be essentially frozen under the Liberal Democrats and increased by 6.2% under Labour. However, as with total departmental spending, there are (greater) cuts implied for intermediate years for all parties, offset by spending increases in the latter years of the parliament.

7. **Comparing the composition of austerity**

As we set out in Section 2, the Conservatives are aiming for a reduction in borrowing of 5.2% of national income to achieve their objective of achieving an overall budget surplus (they plan to do this by 2018–19), Labour’s plans imply a reduction in borrowing of at least 3.6% of national income (by 2018–19) to achieve a current budget balance and the Liberal Democrats’ plans imply that they would reduce borrowing by 3.9% of national income to achieve their objective of a cyclically-adjusted current budget surplus by 2017–18. The SNP have not been explicit about their medium-term target for borrowing. However, their plans for tax and spending imply that they would continue to reduce borrowing in each year through to 2019–20, resulting in an overall borrowing reduction of 3.6% of national income. A summary of the composition of the tightening planned by
each party is set out in Table 7.1. This shows how the parties would reduce borrowing over the full period of their planned fiscal consolidation – that is, the table covers a different period for each party: up to 2017–18 for the Liberal Democrats, up to 2018–19 for the Conservatives and Labour, and up to 2019–20 for the SNP.

Table 7.1. Filling the hole? The parties compared

<table>
<thead>
<tr>
<th></th>
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<th></th>
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</thead>
<tbody>
<tr>
<td><strong>Total reduction in borrowing (2014–15 to end of consolidation)</strong></td>
<td>5.2</td>
<td>3.6</td>
<td>3.9</td>
<td>3.6</td>
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<tr>
<td>Policies inherited from coalition and underlying changes</td>
<td>2.0</td>
<td>2.0</td>
<td>1.7</td>
<td>2.3</td>
</tr>
<tr>
<td>Of which:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Increase in tax</td>
<td>0.5</td>
<td>0.5</td>
<td>0.4</td>
<td>0.5</td>
</tr>
<tr>
<td>Reduction in non-departmental spending</td>
<td>0.9</td>
<td>0.9</td>
<td>0.7</td>
<td>1.2</td>
</tr>
<tr>
<td>Plans for departmental spending in 2015–16</td>
<td>0.6</td>
<td>0.6</td>
<td>0.6</td>
<td>0.6</td>
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<tr>
<td>Parties’ planned tax increases</td>
<td>0.2</td>
<td>0.6</td>
<td>0.7</td>
<td>0.0</td>
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<tr>
<td>Of which:</td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Firm announcements</td>
<td>-0.1</td>
<td>0.3</td>
<td>0.3</td>
<td>0.0</td>
</tr>
<tr>
<td>Target for reducing avoidance</td>
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<td>0.4</td>
<td>0.3</td>
<td>0.0</td>
</tr>
<tr>
<td>Parties’ planned social security cuts</td>
<td>0.6</td>
<td>0.0</td>
<td>0.1</td>
<td>-0.2</td>
</tr>
<tr>
<td>Of which:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Firm announcements</td>
<td>0.1</td>
<td>0.0</td>
<td>0.0</td>
<td>-0.2</td>
</tr>
<tr>
<td>Unspecified measures</td>
<td>0.5</td>
<td>0.0</td>
<td>0.1</td>
<td>0.0</td>
</tr>
<tr>
<td>Increase in debt interest spending as a result of parties’ plans</td>
<td>0.0</td>
<td>-0.1</td>
<td>0.0</td>
<td>-0.1</td>
</tr>
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<td>Cuts to departmental spending after 2015–16</td>
<td>2.5</td>
<td>1.1</td>
<td>1.4</td>
<td>1.6</td>
</tr>
<tr>
<td>Of which:</td>
<td></td>
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<tr>
<td>Delivered through real freeze to departmental spending</td>
<td>1.3</td>
<td>1.3</td>
<td>0.9</td>
<td>1.7</td>
</tr>
<tr>
<td>Specific announcements</td>
<td>-0.3</td>
<td>-0.3</td>
<td>-0.1</td>
<td>-0.4</td>
</tr>
<tr>
<td>Other unspecified cuts</td>
<td>1.5</td>
<td>0.1</td>
<td>0.6</td>
<td>0.3</td>
</tr>
<tr>
<td><strong>Total gap (excl. freeze of departmental spending)</strong></td>
<td>2.3</td>
<td>0.4</td>
<td>1.0</td>
<td>0.3</td>
</tr>
<tr>
<td><strong>Total gap (incl. freeze of departmental spending)</strong></td>
<td>3.6</td>
<td>1.7</td>
<td>1.9</td>
<td>2.0</td>
</tr>
</tbody>
</table>

Note: The table summarises how each party would achieve a borrowing reduction between 2014–15 and the year in which their plans imply they would cease cutting borrowing. The Liberal Democrats would finish their programme of austerity earliest – in 2017–18; the Conservatives and Labour would take until 2018–19; and the SNP plans imply they would continue cutting borrowing until 2019–20. The ‘gap’ is the combination of anti-avoidance measures, unspecified cuts to social security and unspecified departmental spending cuts.

Source: Authors’ calculations based on the OBR’s Economic and Fiscal Outlook: March 2015 and election 2015 manifestos from each of the parties.
Some of the reduction in borrowing is expected to occur even if no further changes to tax or social security policy were announced and implemented. The OBR’s forecasts imply that tax revenues will rise by 0.4% of national income by 2017–18 and by 0.5% of national income by 2018–19 and 2019–20. This is due to a combination of economic growth pushing up revenues and a small net tax rise from new measures already in place, most notably the ending of contracting out for defined benefit pension arrangements in April 2016.

Non-departmental spending is also forecast to fall as a share of national income over the coming parliament. For the Liberal Democrats, this fall in underlying non-departmental spending contributes 0.7% of national income to their desired borrowing reduction (by 2017–18). For the Conservatives and Labour, the fall in underlying non-departmental spending contributes 0.9% of national income to their required borrowing reduction (by 2018–19). For the SNP, the fall in underlying non-departmental spending contributes 1.2% of national income to their required borrowing reduction (by 2019–20).

In addition, the coalition government’s plans for departmental spending in 2015–16 – which we assume all the parties would deliver – imply total departmental spending falling by 0.6% of national income in that year. Taken together, these inherited policies and underlying changes contribute a 1.7% of national income fall in borrowing by 2017–18, 2.0% by 2018–19 and 2.3% by 2019–20.

The Conservatives’ stated policy implies they would implement measures that would boost tax revenues by a further 0.2% of national income by 2018–19. This is driven entirely by their commitment, not yet backed up with detailed measures, to raise an additional £5 billion from measures to reduce what they deem to be tax avoidance and evasion. Their specific tax policies – most notably their commitment to increase the income tax personal allowance and higher-rate threshold by more than inflation – amount to a small net tax cut.

In the case of Labour and the Liberal Democrats, they have committed to bring in even more than the Conservatives from what they deem to be a crackdown on tax avoidance. Labour is aiming to raise 0.4% of national income from such measures by 2018–19, while the Liberal Democrats are aiming to raise 0.3% by 2017–18. The SNP, on the other hand, have not predicated their plans on achieving any additional revenue from anti-avoidance policies, although they do – like the other parties – aspire to achieve this. In addition to tax avoidance measures, Labour have announced other specific tax policies that would raise revenues (and cut borrowing) by 0.3% of national income by 2018–19 and the Liberal Democrats have announced policies that would raise 0.3% of national income by 2017–18.

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56 This comes from lower underlying social security spending (0.8% of national income) and lower spending on other underlying non-departmental, non-debt-interest spending (0.4%), partially offset by higher spending on debt interest on the basis of coalition government policy (0.4%).

57 Within this, social security spending is forecast to fall by 1.0% of national income, debt interest spending (on the basis of coalition government policy) is forecast to rise by 0.5% of national income, and other non-debt-interest non-departmental spending is forecast to fall by 0.4% of national income.

58 Within this, social security spending is forecast to fall by 1.3% of national income, debt interest spending (on the basis of coalition government policy) is forecast to rise by 0.5% of national income, and other non-debt-interest non-departmental spending is forecast to fall by 0.4% of national income.

59 It is worth noting, however, that – as mentioned in Section 3 – the Liberal Democrats require further revenue increases from ‘anti-avoidance’ measures after 2017–18 to offset other announced tax cuts.
The Conservatives are seeking social security cuts worth 0.6% of national income by 2018–19. However, almost 90% of these cuts are from policies that they are yet to set out: their detailed social security cuts are estimated to reduce spending by just 0.1% of national income. There is no significant change in social security spending from Labour’s or the Liberal Democrat’s stated policies, although the Liberal Democrats have assumed that they will be able to cut social security spending by 0.1% of national income by 2017–18 through tackling fraud and getting more people back into work. The SNP have committed to a set of policies that would increase social security spending by 0.2% of national income by 2019–20.

Since they would run slightly higher deficits in most years than the other two parties, Labour and the SNP’s plans imply a slight increase in debt interest spending relative to current forecasts, whereas under the Conservatives and the Liberal Democrats we estimate that debt interest spending would be broadly unchanged from the OBR’s March 2015 forecast.

The remainder of the fiscal tightening required by each of the parties would come from cuts to departmental spending as a share of national income over the period of their planned consolidation. The largest implied reduction is under the Conservatives (2.5% of national income by 2018–19), whereas we estimate that the other three parties would require slightly smaller cuts to departmental spending as a share of national income (a reduction of 1.1 percentage points under Labour by 2018–19, 1.4 percentage points under the Liberal Democrats by 2017–18 and 1.6 percentage points under the SNP by 2019–20).

Freezing departmental spending in real terms would, assuming the economy grows, lead to departmental spending falling as a share of national income. This is a form of austerity in itself. Under the OBR’s forecasts for economic growth between 2015–16 and 2017–18, freezing departmental spending in real terms over this period would be sufficient to reduce it as a share of national income by 0.9 percentage points (as shown for the Liberal Democrats in Table 7.1). Freezing it for one more year would increase this to 1.3 percentage points (as shown for Labour and the Conservatives) and freezing for a fourth year would increase the cut further to 1.7 percentage points (as shown for the SNP).

However, relative to such a freeze, the various commitments made by the parties would increase spending on some areas (such as the NHS, overseas aid and parts of the education budget). The spending commitments, relative to a benchmark of a real freeze, total 0.3% of national income under the Conservatives and Labour by 2018–19, 0.1% under the Liberal Democrats by 2017–18 and 0.4% under the SNP by 2019–20.

What is left is how much other departmental spending would need to be cut relative to a benchmark of a real freeze. These other areas include areas of central government spending such as defence, transport, law and order, and grants to local authorities for services such as social care for the elderly.

The Liberal Democrats would need to cut ‘unprotected’ departmental spending by 0.6% of national income between 2014–15 and 2018–19. This (as described in Section 6) would equate to a cut of 6.3% (or £11.8 billion) in real terms between 2015–16 and
2017–18. This cut was explicitly mentioned in an appendix to the Liberal Democrat manifesto.60

In the case of the Conservatives, spending would need to be cut across ‘unprotected’ areas by a total of 1.5% of national income. This would equate to a real cut of 15.3%, or £30.0 billion, in real terms between 2015–16 and 2018–19. Unlike the Liberal Democrats, the Conservatives did not mention these cuts in their manifesto.

If Labour were to freeze unprotected areas for three years (from 2015–16 to 2018–19), given their other tax and spending announcements, this would be almost enough to deliver their desired current budget balance by 2018–19. They would need to cut spending on unprotected areas by only 0.7% (£1.2 billion) between 2015–16 and 2018–19 in order to meet their stated fiscal targets. Labour’s manifesto was clear about the need for some cuts to ‘unprotected’ departments.

For the SNP, a four-year freeze in departmental spending outside the NHS and aid (from 2015–16 to 2019–20) would not be quite enough to deliver the spending plans set out in their manifesto. Instead, they would need to cut ‘unprotected’ departmental spending in real terms by 2.5% (£6.0 billion) over the four years from 2015–16 to 2019–20; these cuts were not mentioned in the SNP manifesto.

Table 7.1 makes it clear that, while the Conservatives have the most ambitious commitment for deficit reduction, they would have to detail the largest set of new policies – over and above those already in place or contained in their manifesto – in order to be able to expect to achieve their target. The penultimate row of the table totals the ‘unspecified’ tightening for each party: that is, this row shows the total amount that is to come from tax rises that have been dubbed ‘anti-avoidance measures’ by the Conservatives, Labour and the Liberal Democrats and from cuts to social security and departmental spending that have not been set out in any detail. (The final row of the table adds to this the borrowing reduction that would be expected to come from freezing departmental spending in real terms – for two, three or four years, depending on the party.)

The Conservatives' unspecified policies – or ‘gap’ – total 2.3% of national income (even assuming they deliver a freeze to all unprotected areas of departmental spending for three years). This comprises a £5 billion increase in tax revenues through largely unspecified tax avoidance measures, around £10 billion of unspecified cuts to social security and a £30 billion cut in real terms to ‘unprotected’ departmental spending between 2015–16 and 2018–19. The Liberal Democrats’ ‘gap’ amounts to 1.0% of national income, including a £7 billion increase in revenues from largely unspecified anti-avoidance measures, £2 billion of cuts to social security spending by tackling fraud and getting more benefit claimants back to work, and a £12 billion cut to ‘unprotected’ departmental spending between 2015–16 and 2017–18. The SNP need to provide further details of a £6 billion cut to ‘unprotected’ departments (between 2015–16 and 2019–20) – to fill their 0.3% of national income ‘gap’. Meanwhile, Labour would be able to fill the ‘gap’ in their plans (0.4% of national income) by spelling out more detail on their proposed anti-avoidance measures and a small real-terms cut to ‘unprotected’ departments.

Figure 7.1. Filling the hole? The parties compared

Note: The figure summarises how each party would achieve a borrowing reduction between 2014–15 and the year in which their plans imply they would cease cutting borrowing. The Liberal Democrats would finish their programme of austerity earliest – in 2017–18; the Conservatives and Labour would take until 2018–19; and the SNP plans imply they would continue cutting borrowing until 2019–20.

Source: Authors’ calculations based on the OBR’s Economic and Fiscal Outlook: March 2015 and election 2015 manifestos from each of the parties.

However, these numbers all take as given that the parties could freeze ‘unprotected’ departmental spending in real terms (for two, three or four years) in the next parliament. Doing this would not be easy, particularly as it would come on top of five years of cuts to departmental spending during this parliament (as described in Section 6). It would also obviously be harder the longer it went on. Therefore, the bottom row of the table adds to each party’s ‘gap’ the amount of borrowing reduction delivered solely through a real-terms freeze in spending.

Figure 7.1 summarises the data in Table 7.1 graphically. A large proportion of the tightening required by each party will come from underlying changes and policies inherited from the coalition government (shown in green and including things such as the cuts to departmental spending already announced for 2015–16). Much of the remainder that is required under Labour, the Liberal Democrats and the SNP could be brought about by a freeze in departmental spending (shown in dark grey). Under the Conservatives, the larger additional fiscal tightening they have committed to (relative to the other parties) largely comes from a combination of unspecified cuts to departmental spending (over and above the cut to departmental spending as a share of national income that would be achieved by freezing this spending in real terms for three years), unspecified tax avoidance measures and unspecified cuts to social security spending.

8. Conclusions

In our analysis of the Conservative, Labour and Liberal Democrat fiscal plans in the run-up to the 2010 general election, we said: ‘The voters in this election deserve to make an informed choice between the plans the parties have to repair our public finances.'
Unfortunately, all of them are vaguer than they could be or should be.”61 This time round, the parties we have covered in this briefing note also could have done better.

The Conservatives have provided a firm commitment to eliminate the entire budget deficit and have been fairly specific about the speed at which they wish to achieve this. But they have not provided anything like complete details of the measures they would implement in order to eliminate the deficit. Beyond current government policies, their stated commitments imply:

- an increase in tax revenues of 0.2% of national income, yet their detailed tax announcements are a net giveaway of 0.1% of national income;
- a reduction in social security spending of 0.6% of national income, yet their detailed policies bring in only just over a tenth of that amount;
- a reduction in departmental spending of 2.5% of national income, yet their policies imply (relative to a real freeze) an increase in spending of 0.3% of national income.

It might be unreasonable to expect the Conservatives to have set out full details of their departmental spending plans throughout the next parliament. However, by providing so much detail on the areas where they plan to increase spending (such as the NHS), while providing no hint of the need for cuts elsewhere, they risk giving a misleading impression of what public service spending under a Conservative government would look like.

Labour’s detailed policies do potentially provide a fuller description than the Conservatives of what they need to do to reduce the deficit sufficiently to meet their aspirations. Their detailed policies would boost rather than reduce tax revenues, and they have been clear that some cuts to unprotected departments would be required. But we can only say ‘potentially provide’ because the Labour Party has provided disappointingly little information on exactly how much it would borrow if it were in government after the next election. Labour have committed to only borrowing to invest by the end of the parliament, but they have been less than clear about when they would like to achieve this. Given the coalition government’s investment plans, it would be consistent with any reduction in borrowing totalling 3.6% of national income or more. As a result, we are not able, on the one hand, to be certain about how austere Labour are planning to be after 2015–16; nor, on the other hand, are we able to set out precisely how far they would seek to reduce debt as a share of national income over the coming parliament.

The Liberal Democrats have been more transparent about their overall fiscal plans for the next parliament. But the vast majority of their planned cut to social security spending is to come from their ambition to reduce fraud and error in the system and to get better at helping people back into work and off benefits. They have also committed to raising a substantial £10 billion from what they deem to be tax avoidance by the end of the parliament – which is twice as much as the Conservatives and a third more than Labour – with relatively little in the way of detailed measures to say who will be paying this additional tax.

The SNP plans appear to be underpinned by a specific plan for total spending, social security and tax policies for the next parliament. In marked and positive contrast to the other parties, they have not predicated their fiscal plans on achieving any additional revenues from uncertain and unspecified anti-avoidance measures. However, unlike the

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other parties, the SNP have not made any clear statement about what level of borrowing they would be comfortable with in the medium and longer term.

The SNP’s recent rhetoric when announcing their fiscal plans states that they would be less austere and, in particular, cut spending by less than the main Westminster parties. For example, their manifesto states that ‘We reject the current trajectory of spending, proposed by the UK government and the limited alternative proposed by the Labour Party’. There is a considerable disconnect between this rhetoric and the SNP’s stated plans for total spending, which imply a bigger cut to spending by 2019–20 than Labour’s plans.

Labour have suggested that the Office for Budget Responsibility should be able to audit the fiscal plans put forward by each of the parties. Such an audit would be close to impossible on the basis of the detail set out in any of the plans we have seen this time round. If the OBR were to be given a statutory responsibility for carrying out such an audit, the parties would have to change their behaviour rather substantially. The consequences of such a proposal would have to be carefully thought through both to ensure that the OBR was able to produce high quality analysis without risks to its independence and to ensure that such requirements were compatible with political realities. Whether or not that change is implemented, we can only hope that the electorate is presented with more clarity at the time of the next UK general election (in May 2020 if not sooner).

Appendix

Table A.1. Public sector net borrowing profiles compared

<table>
<thead>
<tr>
<th>Percentage of national income</th>
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<th>Liberal Democrats</th>
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Source: Authors’ calculations based on OBR Economic and Fiscal Outlook: March 2015 and election 2015 manifestos from each of the parties.

### Table A.2. Public sector net debt profiles compared

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Source: Authors’ calculations based on OBR *Economic and Fiscal Outlook: March 2015*, chart 1.8 of HM Treasury *Budget 2015* and election 2015 manifestos from each of the parties.

### Table A.3. Profile for total tax revenues compared

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Note: Assumes Liberal Democrats (and Conservatives) fully implement their proposed increases to the personal allowance (and higher-rate threshold) by 2020–21, i.e. neither is fully implemented in 2019–20. Assumes that each party would raise the amount in revenues that they have pledged to raise from anti-avoidance measures. 

Source: Authors’ calculations based on parties’ manifestos and associated announcements; Office for Budget Responsibility’s March 2015 *Economic and Fiscal Outlook*. 
### Table A.4. Total spending under each of the parties

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Source: Authors’ calculations based on parties’ manifestos and associated announcements; Office for Budget Responsibility’s March 2015 Economic and Fiscal Outlook.

### Table A.5. Total social security spending under each of the parties

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Source: Authors’ calculations based on the OBR’s Economic and Fiscal Outlook: March 2015 and election 2015 manifestos from each of the parties. Refer to the text for a description of the assumptions made. Historical numbers derived using the DWP 2015 Benefit Expenditure Tables.
Table A.6. Total spending on departments under each of the parties

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<tr>
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<td>19.0</td>
<td>18.6</td>
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<tr>
<td>2017–18</td>
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<td>18.6</td>
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<tr>
<td>2018–19</td>
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<td>18.3</td>
<td>18.1</td>
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<tr>
<td>2019–20</td>
<td>17.2</td>
<td>18.7</td>
<td>18.4</td>
<td>17.8</td>
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</table>

Source: Authors’ calculations based on parties’ manifestos and associated announcements; Office for Budget Responsibility’s March 2015 Economic and Fiscal Outlook.

Table A.7. Total spending on unprotected departments under each of the parties (all departments, excluding aid, NHS and all education spending)

<table>
<thead>
<tr>
<th></th>
<th>Conservatives</th>
<th>Labour</th>
<th>Liberal Democrats</th>
<th>SNP</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Real terms (2015–16 prices)</strong></td>
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<tr>
<td>2014–15</td>
<td>181.8</td>
<td>181.8</td>
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<tr>
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<tr>
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<td>176.8</td>
<td>169.9</td>
<td>174.1</td>
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<tr>
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<td>176.8</td>
<td>165.3</td>
<td>172.9</td>
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<tr>
<td>2018–19</td>
<td>149.3</td>
<td>178.5</td>
<td>171.9</td>
<td>171.8</td>
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<tr>
<td>2019–20</td>
<td>160.8</td>
<td>193.1</td>
<td>181.3</td>
<td>172.7</td>
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<tr>
<td><strong>Percentage of national income</strong></td>
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<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2014–15</td>
<td>9.9</td>
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<td>9.9</td>
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<tr>
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<td>9.0</td>
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<td>7.8</td>
<td>9.4</td>
<td>8.8</td>
<td>8.4</td>
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</tbody>
</table>

Note: Definition of unprotected departments is chosen for consistency between the parties. For the Conservatives, we assume that unprotected education resource spending is cut at the same rate as other unprotected resource spending, and that education capital spending increases in line with overall capital spending. For Labour, the commitment to increase spending on higher education is included in these figures, so the numbers potentially slightly overstate the budget available to unprotected areas. For the Liberal Democrats and the SNP, we assume that unprotected education spending faces the same percentage cuts as other unprotected areas.

Source: Authors’ calculations based on parties’ manifestos and associated announcements; Office for Budget Responsibility’s March 2015 Economic and Fiscal Outlook, HM Treasury’s 2015 Budget.