Press Release

Public finance plans of Conservatives, Labour, Liberal Democrats and SNP leave much unanswered

With the deficit in 2014–15 still at 5% of national income all these parties have pledged to reduce it over the coming parliament. New research, published today by the IFS and funded by the Nuffield Foundation, analyses the public finance implications of these political parties’ election manifesto commitments, and sets out the size and composition of the future fiscal tightening that each appears to be planning.

None of these parties has provided anything like full details of their fiscal plans for each year of the coming parliament, leaving the electorate somewhat in the dark as to both the scale and composition of likely spending cuts and tax increases. In our analysis we have used the information provided in each manifesto, plus in some cases some necessary assumptions, to shed light on the four parties’ plans.

Our analysis suggests that, on borrowing and debt:

- The Conservatives are planning the largest reduction in borrowing over the next parliament, of 5.2% of national income, to eliminate the deficit by 2018–19. They would require some large spending cuts or tax increases to achieve this.

- Labour has been considerably more vague about how much they would want to borrow. They have pledged to ‘get a surplus on the current budget’ without specifying either exactly when or how much of a surplus. This pledge could be consistent with any reduction in borrowing totalling 3.6% of national income or more (given the coalition government’s investment plans). A reduction in borrowing of 3.6% of national income would require little in the way of spending cuts or tax increases after this year.

- The Liberal Democrats have been more transparent about their overall fiscal plans through to 2017–18 and are aiming for a tightening that is larger than Labour’s but smaller than the Conservatives’, at 3.9% of national income.

- The SNP’s fiscal numbers imply the same reduction in borrowing over the next parliament as Labour, although the reduction in borrowing under their plans would be slower. While their plans imply a slower pace of austerity than those of the other three parties, they imply a longer period of austerity.

The Conservatives’ plans could see national debt falling from about 80% of national income to 72% by the end of the parliament while debt might fall only as far as 77% under Labour plans. That’s a difference equivalent to about £90 billion in today’s terms. The Conservative plans, if implemented would have
the advantage of resulting in lower debt interest payments and could potentially leave the country better placed to deal with future adverse economic shocks. But they would require much deeper spending cuts or tax increases than would the other parties’ plans.

In terms of the measures required to bring about these plans:

- Despite planning for more austerity, the Conservatives’ detailed tax policies amount to a net giveaway, their detailed social security measures would only provide a tenth of the cuts that they have said they would deliver, and their commitments on aid, the NHS and schools would increase spending in these areas.

- The Conservatives’ borrowing reduction is, therefore, predicated on £5 billion of largely unspecified anti-avoidance measures, £10 billion of unspecified social security cuts, and £30 billion of cuts to unprotected departmental spending. Departments outside the NHS, education and aid look to be facing cuts of 17.9% between 2014–15 and 2018–19. This would imply average cuts to these spending areas of one third in real terms from the start of austerity (in 2010-11) up to 2018-19. These ‘unprotected’ areas include defence, transport, law and order and social care.

- Labour’s plans include some small net tax increases, and their commitments to increase certain areas of public spending are no bigger than the Conservatives. The big difference though is their much looser fiscal rule. If they can find £7½ billion of revenues from anti-avoidance measures, as they say they can, then they might need to find a mere £1 billion from further real cuts to unprotected departmental spending.

- As the Liberal Democrats have acknowledged in their manifesto, their plans would require £12 billion of cuts to unprotected departments. Their plans are predicated on two other optimistic claims. First, 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 benefit recipients back into work. Second, they wish to raise £10 billion by the end of the parliament from largely unspecified and highly uncertain measures to reduce tax avoidance and evasion. This is twice as much as the Conservatives, and a third more than Labour, expect to raise from such measures.

- The SNP are the one major party not to have used largely made up assumptions about how much they could raise from clamping down on tax avoidance to try to make their sums add up. Their proposed tax giveaways appear to be offset by their tax takeaways, while they would increase the generosity of the social security system. As a result, even though they propose increasing total spending in real terms each year, departmental spending would need to 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 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 their stated plans for total spending, which imply a lower level of spending by 2019–20 than Labour’s plans.

Soumaya Keynes, research economist at the IFS and an author of the report, said: “The Conservatives have said they want to eliminate the deficit but
provided next to no detail on how they would do it. They should be forthcoming on the £5 billion of largely unspecified clamp down on tax avoidance, the £10 billion of unspecified cuts to social security spending and, according to our calculations, further real cuts to ‘unprotected’ departments of around £30 billion.”

Rowena Crawford, senior research economist at the IFS and an author of the report, said: “Labour’s proposed measures might be broadly enough to meet their target for only borrowing to invest. But this would leave borrowing at £26 billion a year in today’s terms. If Labour wanted to reduce borrowing to a lower level than this, they would have to spell out more detail of how they would get there.”

Carl Emmerson, IFS deputy director, added: “There are genuinely big differences between the main parties’ fiscal plans. The electorate has a real choice, although it can at best see only the broad outlines of that choice. Conservative plans involve a significantly larger reduction in borrowing and debt than Labour plans. But they are predicated on substantial and almost entirely unspecified spending cuts and tax increases. While Labour has been considerably less clear about its overall fiscal ambitions its stated position appears to be consistent with little in the way of further spending cuts after this year”.

ENDS

Notes to Editors:

1. ‘Post-election Austerity: Parties’ Plans Compared’ by Rowena Crawford, Carl Emmerson, Soumaya Keynes and Gemma Tetlow is published today. For copies of the report or other queries, please contact: Jonathan Wood 020 7291 4818 / 07730 667013, jonathan_w@ifs.org.uk.

2. The Nuffield Foundation is an endowed charitable trust that aims to improve social well-being 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 http://www.nuffieldfoundation.org.