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The outlook for the public finances: the Conservative, Labour and Liberal Democrat manifestos compared

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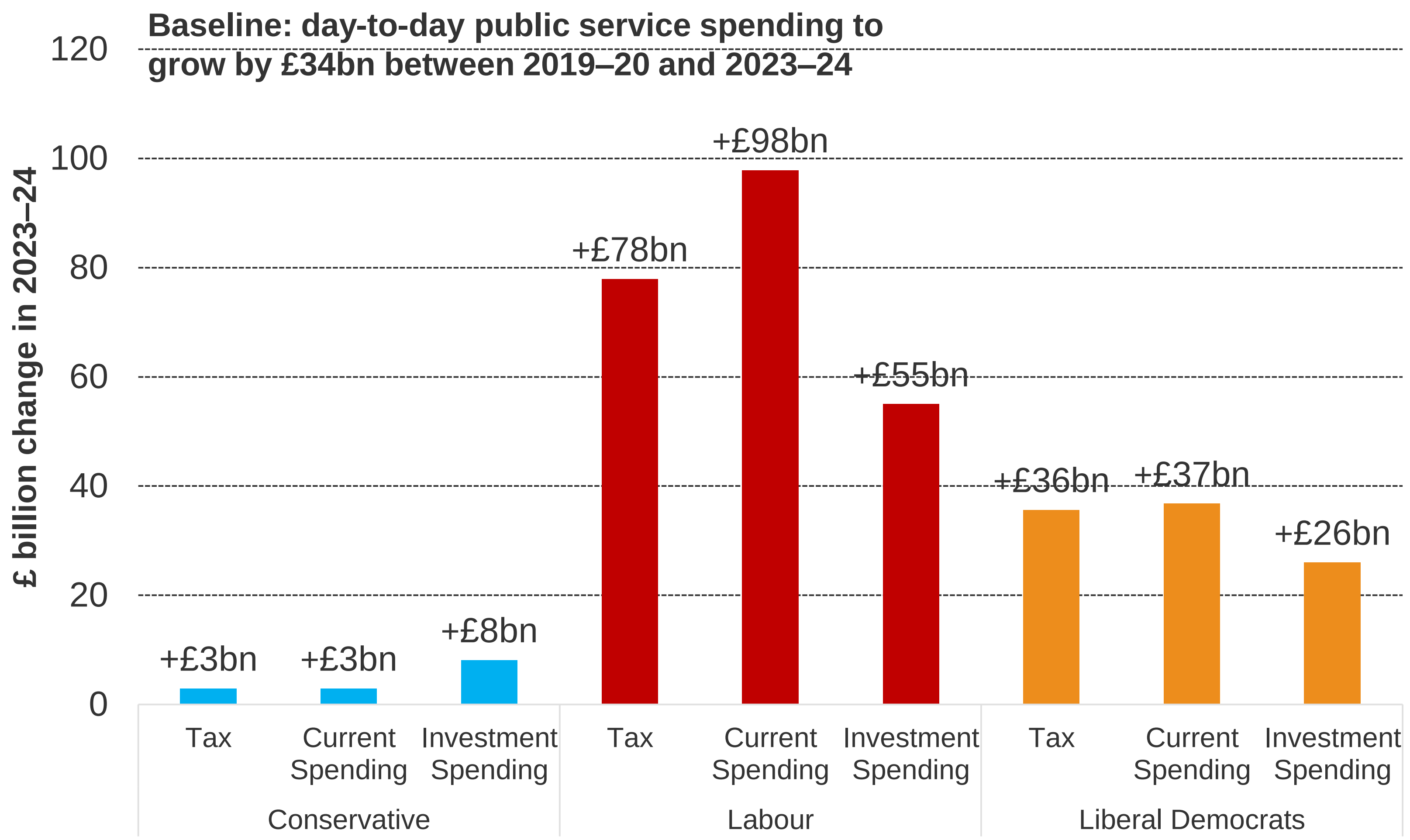
Parties offering the electorate a big choice



Note: Figures relate to 2023–24; author's calculations based on each parties manifesto.

Some costings not in the manifestos

Conservative manifesto contains commitments in need of funding

- Northern Powerhouse Rail, the Midlands Hub, 6 new hospitals over 5 years, a Gigafactory, …
- £0.8bn provided for a £2bn further education estate upgrade

Labour costings omitted include

- revenue from proposed windfall tax and Inclusive Ownership Fund, and associated spending
- £58bn of “WASPI” compensation
- substantial long-run cost from not increasing state pension age beyond 66

Growth prospects

Substantial investment spending increase boosts growth

- OBR multipliers suggest Labour's £55bn increase would add £22bn to GDP in 2023–24

Some of Labour's policies may increase equity at the risk of reducing growth

- increased corporate taxes
- increased labour market regulations including substantial increase and extension of National Living Wage, additional bank holidays, …
- Inclusive Ownership Fund and, potentially, nationalisation policies

Outlook for economy inherently uncertain, growth could falter regardless of which policies are pursued

A key issue for growth will be Brexit

Conservatives: risk of a "no deal" Brexit

- commitment not to extend transition period beyond 31 December 2020 risks a "no deal" Brexit which would be economically damaging
- we highlight through an alternative scenario

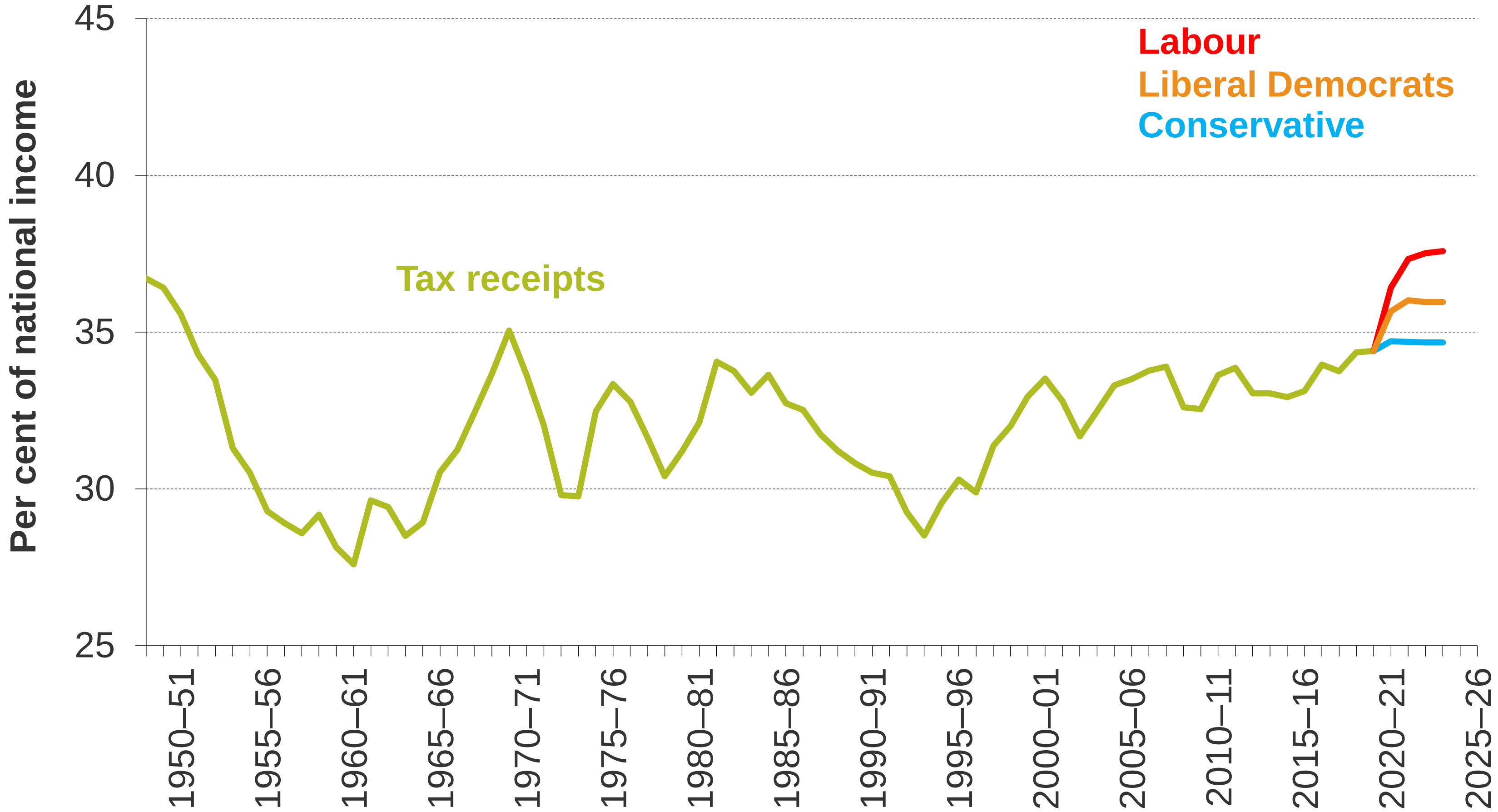
Liberal Democrats: revoking Article 50 would boost growth

- Lib Dems assumption that national income would be £50bn (2%) higher in five years under a remain scenario plausible (3% lost since 2016)
- boost to tax receipts, net of additional net transfers to the EU, worth £24bn in 2023–24

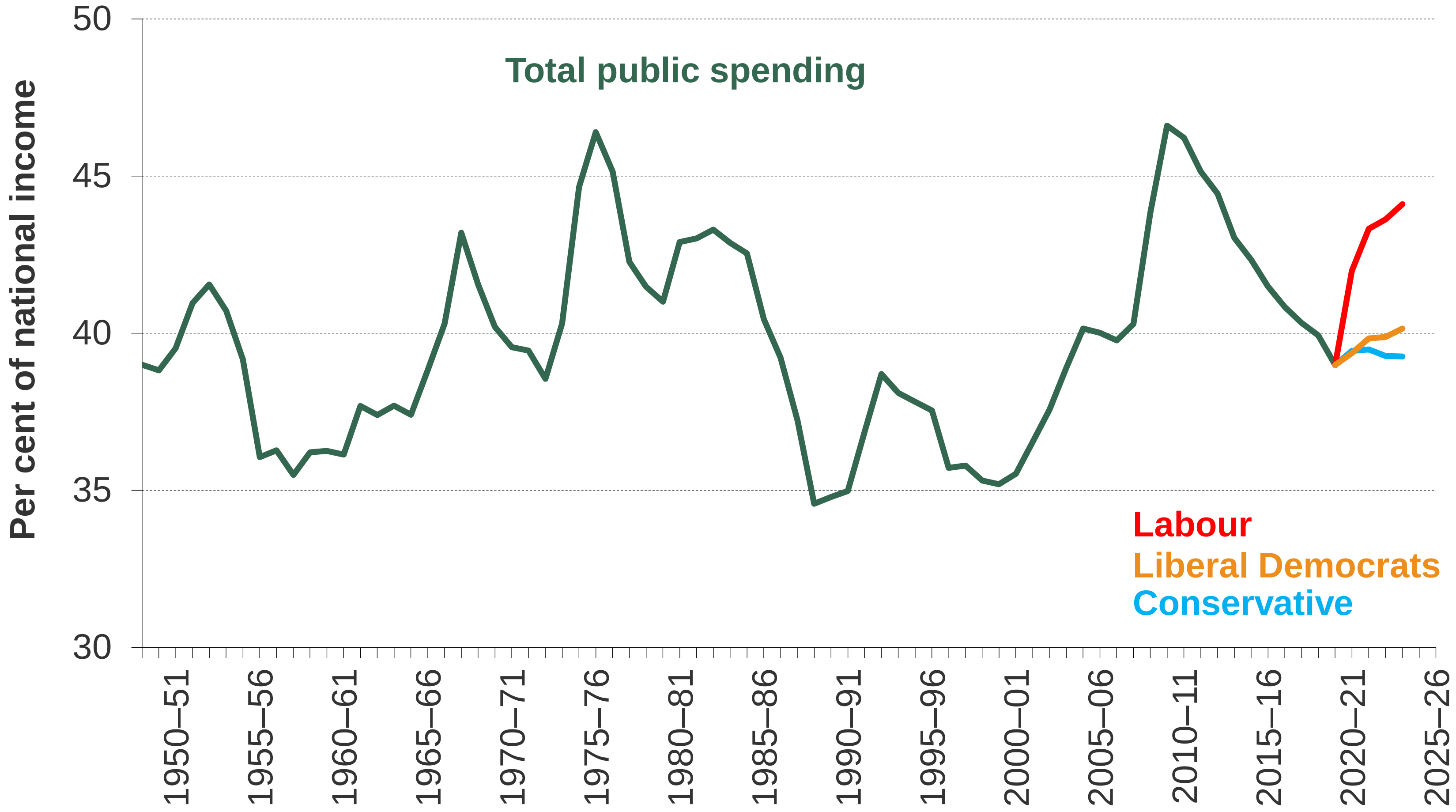
Labour: softer Brexit – or no Brexit at all

- closer single market relationship, and especially remain, would boost growth relative to Conservative policy

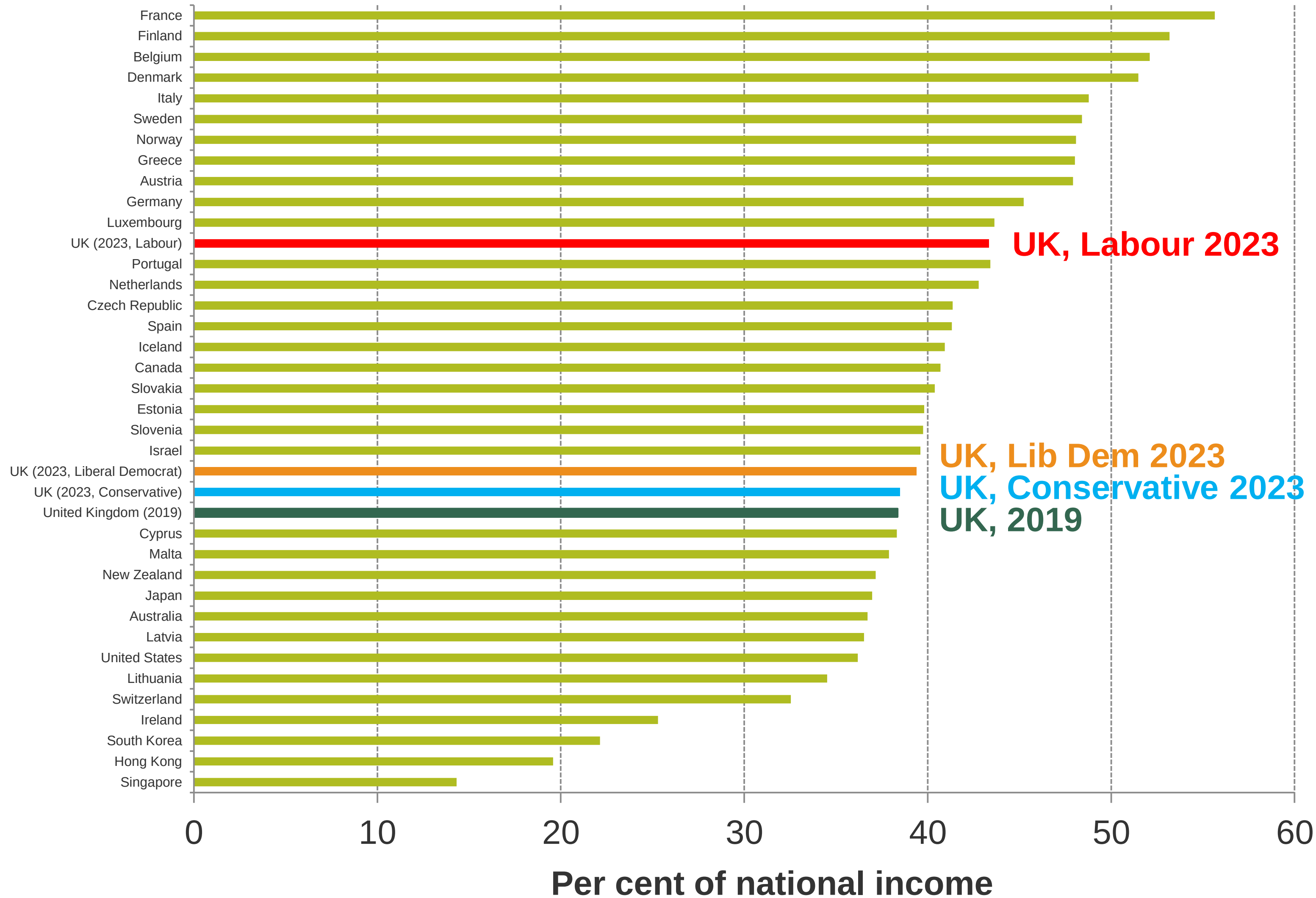
Taxes to rise to historically high levels …



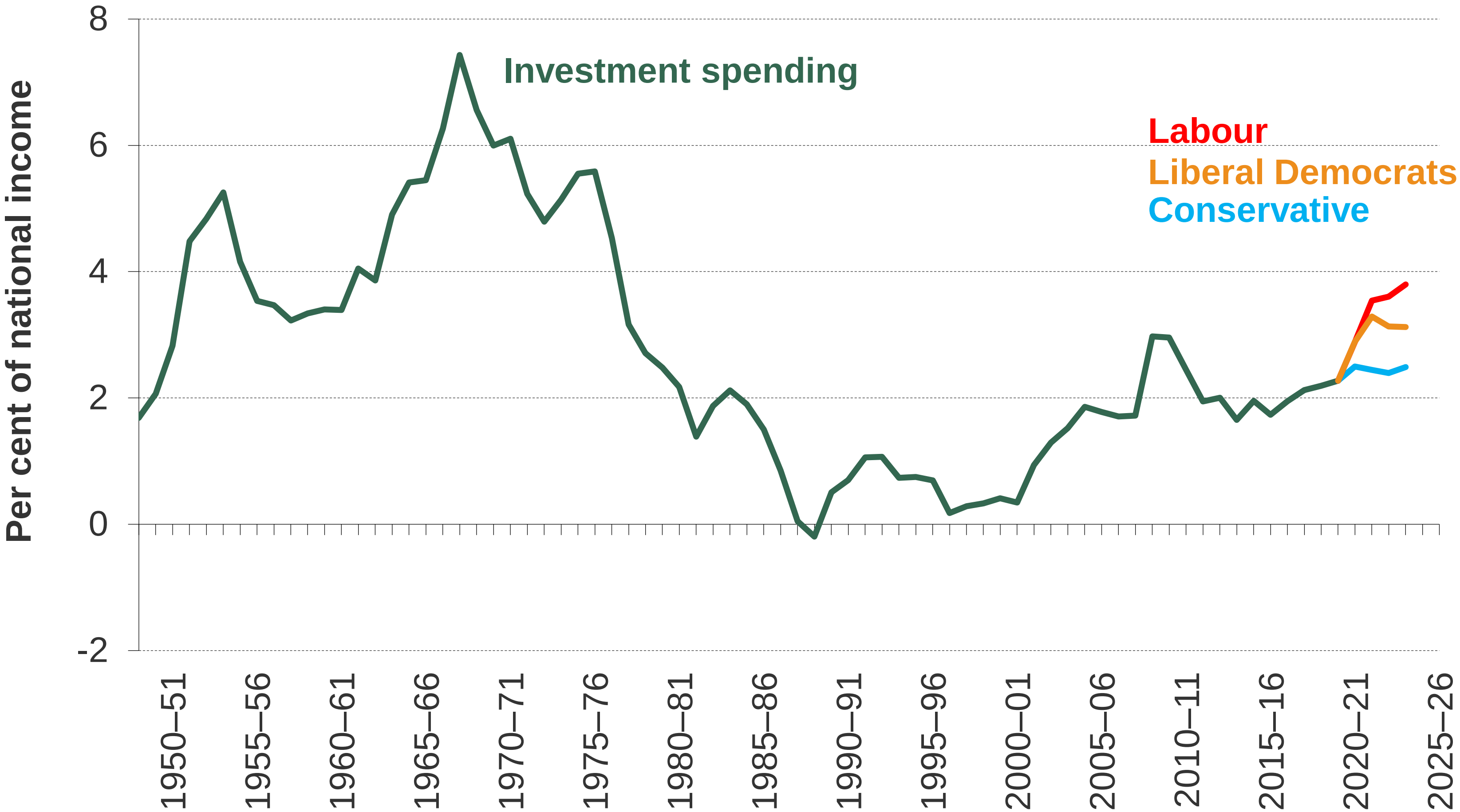
Labour would push total spending to level never previously sustained in the UK …



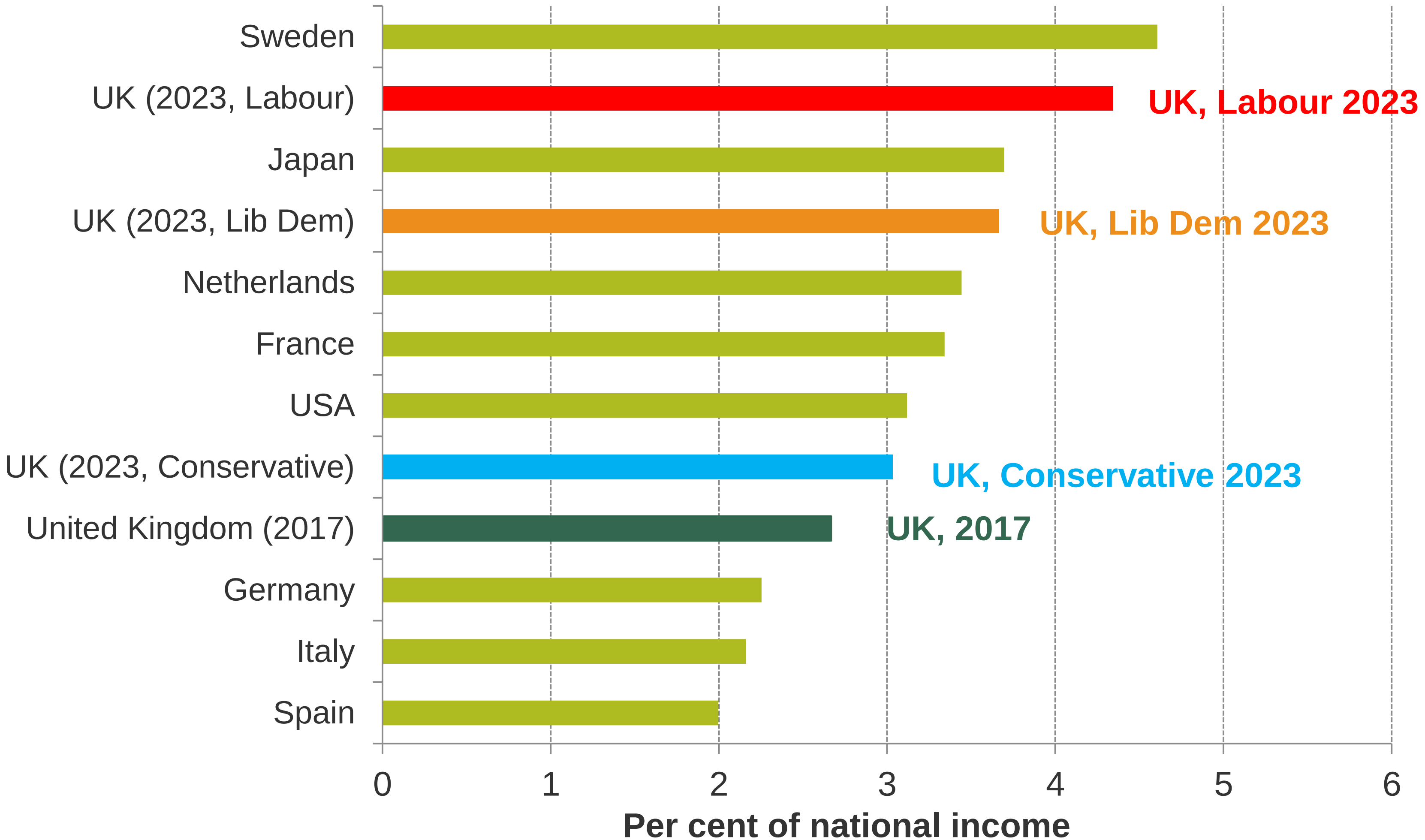
… but not to high levels by European standards



Labour and Lib Dems would increase investment to levels not seen since the early 1970s …

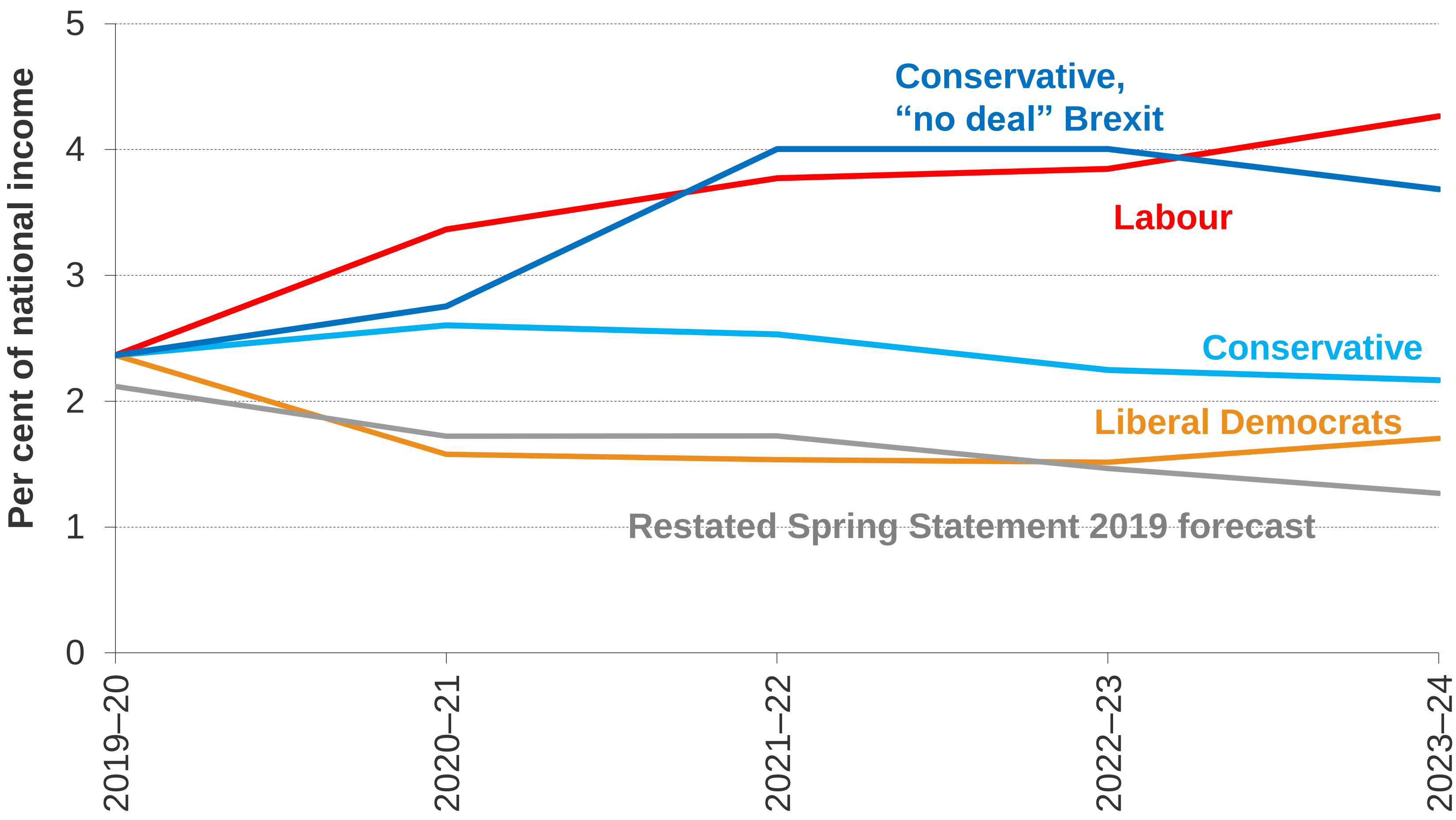


… and to a high level internationally too

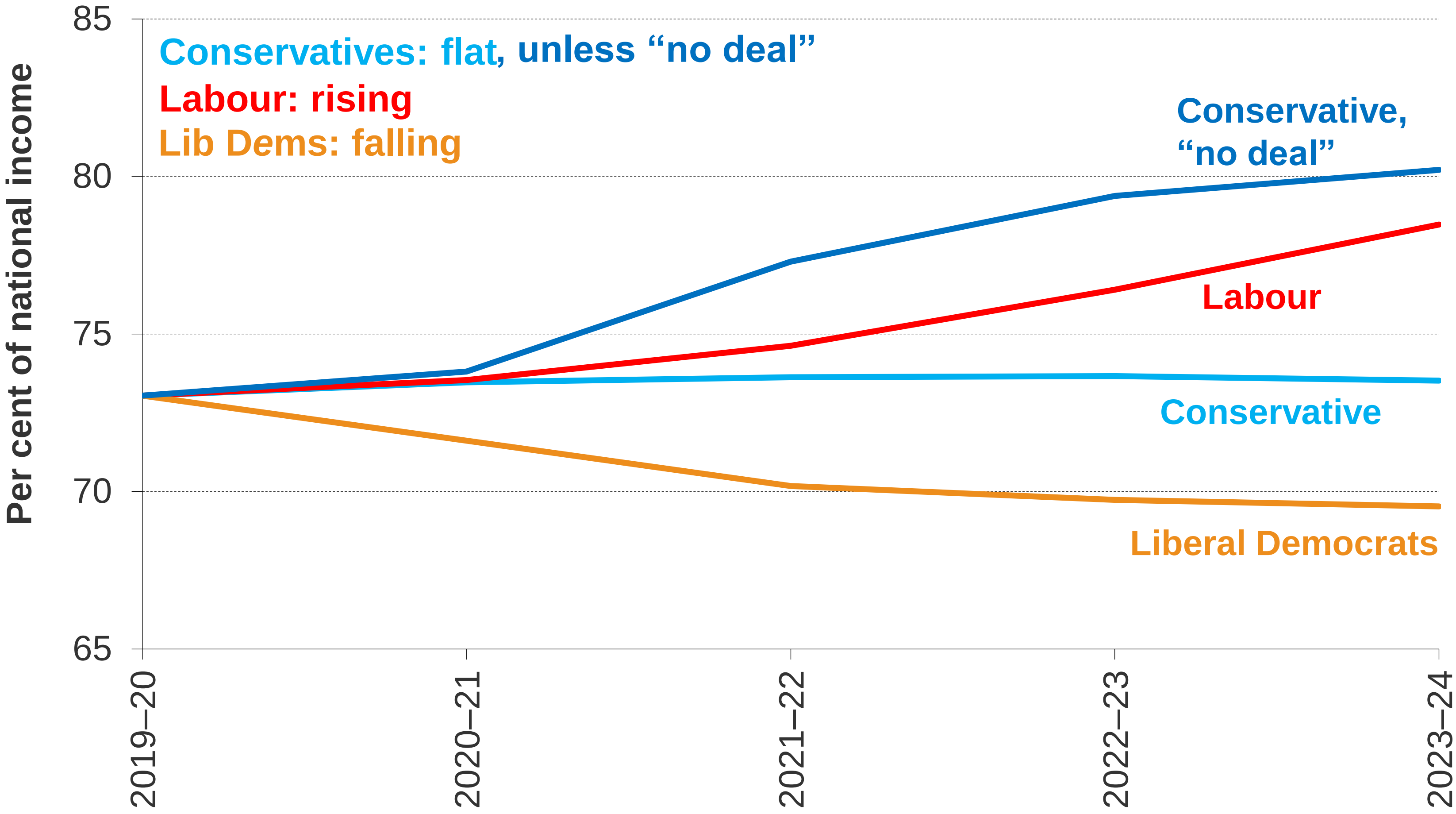


Note: General government gross fixed capital formation, and therefore not comparable to previous figure.

Illustrative outlook for borrowing



Outlook for public sector net debt, excluding Bank of England and Labour's renationalisation



Labour's nationalisation programme and the public finances

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Nationalisation of energy, water, rail, mail and broadband would add to public sector net debt

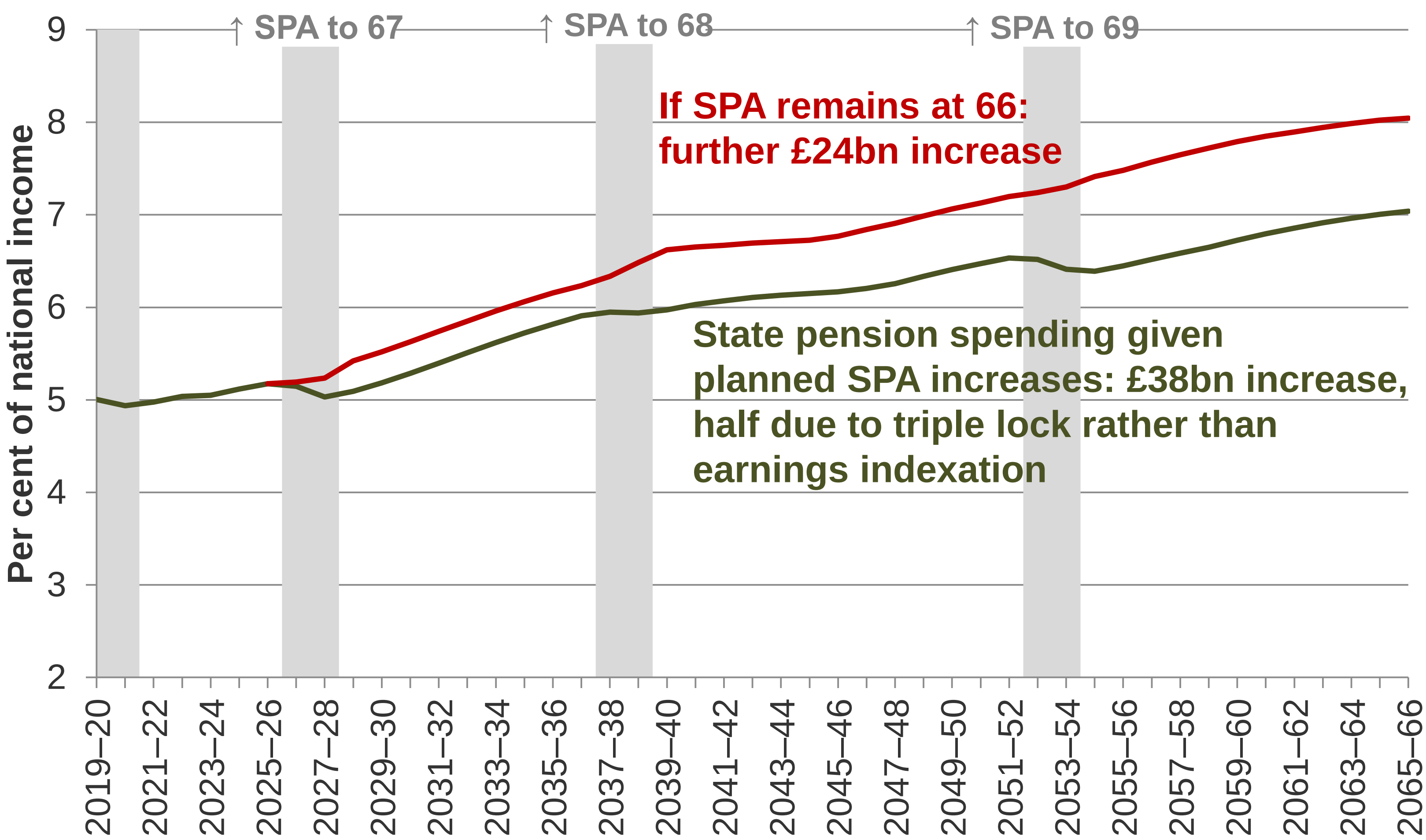
- the debts of these organisations (>£150 billion) plus the cost of providing compensation (not known, crucial to get right)

Labour targeting public sector net worth

- nationalisation would increase public sector net assets

What matters is whether assets would be better managed by the public or the private sector

Consequences of state pension promises



Conclusion (1/2): very different offers

Conservative plan

- tax maintained around current UK high
- increased spending on investment, NHS and schools, some cuts elsewhere
- debt stable

Labour plan

- tax pushed to levels not seen before in the UK, but still below that in many successful Western European countries
- substantial increase in day-to-day public service spending and on investment
- debt rising

Liberal Democrat plan

- substantial increases in tax and spending, albeit smaller than Labour's plan
- debt falling

Conclusion (2/2): risks in all these plans

Conservatives

- likely would spend more than claimed, as happened after 2017 and 2015
- risk of “no deal” Brexit

Labour and Liberal Democrats

- how deliverable are planned spending increases?

Labour

- further tax rises would be needed at some point to raise revenue they want
- softer Brexit would boost the economy, but many other policies that might be nice to have could risk damaging it
- state pension policies worsen long-run public finance challenges

 Note: We have adjusted the figures on slides 11 and 12 on November 29th. The previous version understated headline borrowing in the Labour scenario and overstated headline borrowing in the Liberal Democrat scenario. The adjustment for public sector net debt is more modest and does not change the pattern of the different scenarios.