GENERAL ELECTION 2019
A FISCAL INSIGHT

5 December 2019

General Election 2019: It's More Than a Vote

On 12 December 2019, voters have the opportunity to focus on the big challenges of sustainability, technology and the public finances as they elect a government for the next four and a half years.

This ICAEW Fiscal Insight analyses the financial effects of the manifesto proposals of the Conservatives, the Labour Party, the Liberal Democrats and the Green Party.[1] You can be part of the conversation as part of our GE 2019: It's More Than a Vote campaign.

Overview

- All the political parties are promising to increase taxes, public spending and investment
- Conservatives are promising the least, but they have deferred significant decisions
- Other parties propose spending a lot more, with Labour planning to nationalise utilities

Key points

- Context: the public finances are on a financially unsustainable path
- There are significant risks around the achievability of all the party manifesto plans
- None of the parties set out a long-term fiscal strategy for the public finances

"All of the major political parties have set out plans to increase public spending and investment, despite a gloomy prognosis for the economy.

The Conservatives' cautious set of proposals, arguably deferring big decisions with significant financial implications until after the election, contrast with the very radical proposals for restructuring the economy proposed by the Labour Party and the large spending and investment programmes proposed by Labour, the Liberal Democrats and the Green Party.

The parties propose short-term fiscal rules to guide their management of the public finances. The history of such rules is not encouraging, with most of the previous rules either breached or replaced, casting doubt on their credibility both in terms of assuring the public of fiscal responsibility and their usefulness in managing the public finances.

While there is increasing acceptance of the need for action on climate sustainability, there is little in the party manifestos on the potential of technological innovations to achieve a more productive economy. Importantly, none of the parties set out a long-term vision for the public finances, currently on an unsustainable path. Inaction now will only make things worse, increasing the financial burden that is passed onto future generations."

Vernon Soare
Chief Operating Officer, ICAEW

[1] The Brexit Party has not provided costings to support its 'contract with the British people' and so has not been analysed.

Analysis[2]

- The fiscal deficit has stopped falling and is rising with the 'end of austerity'
- Projected deficit in 2023–24 of £51bn to be £62bn (Conservatives), £118bn (Labour), £76bn (Liberal Democrats) or £133bn (Greens)
- Public sector net debt at 31 March 2024 in the order of £1,880bn (Conservatives), £2,050bn+ (Labour), £1,940bn (Liberal Democrats) or £2,100bn (Greens)
- No proposals for improving balance sheet management (assets £2.0tn, liabilities £4.6tn)
- New fiscal rules, but questions about whether they would be adhered to

Conservatives: limited commitments, major decisions deferred until after the election

- £11bn a year in extra spending and investment by 2023–24
- Funded by £4bn a year in net tax increases and £7bn a year in additional borrowing
- Uncosted proposal to freeze fuel duties at a cost of £4bn a year in 2023–24

Labour Party: radical economic reform, including the nationalisation of most utilities

- £138bn a year in extra spending and investment, plus £58bn for 'WASPI' women
- £78bn a year in tax rises, £5bn a year from growth and £67bn a year more borrowing

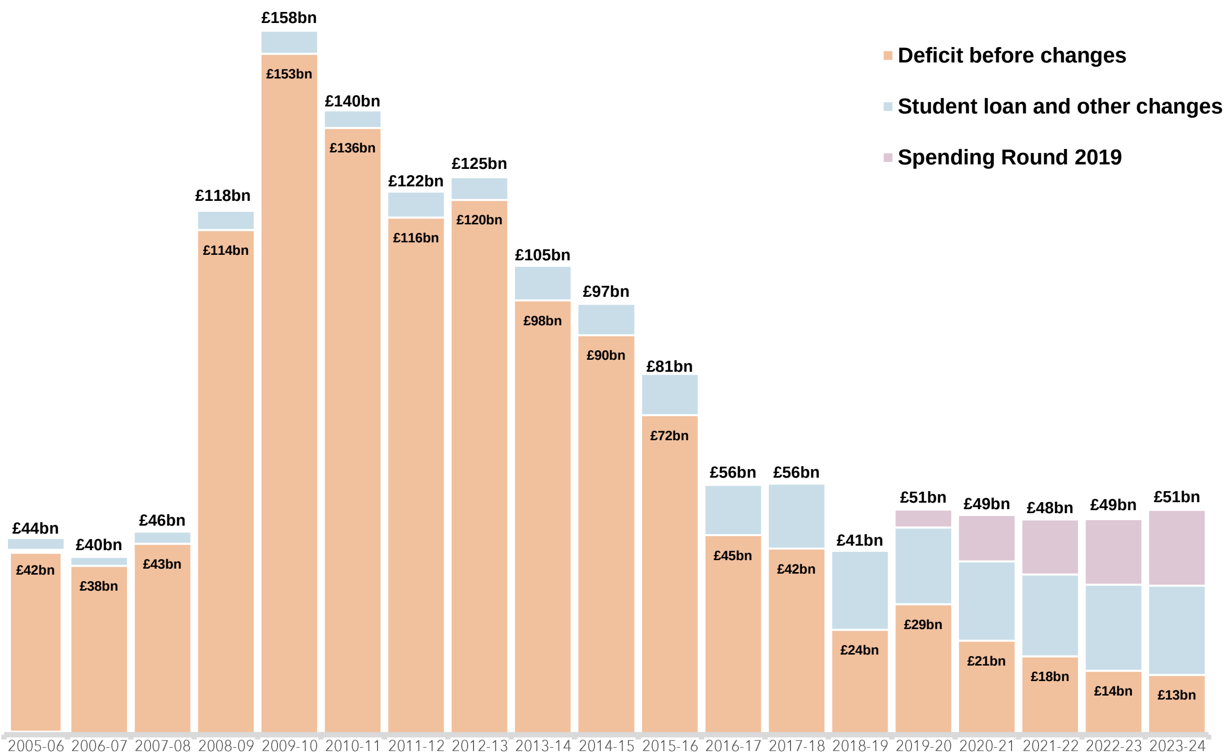
Liberal Democrats: substantial sums for welfare, public services and investment

- £76bn a year in additional spending and investment by 2024–25
- £37bn a year in tax rises, £14bn a year from growth and £25bn a year more borrowing

Green Party: radical reform of the welfare state, plus large-scale capital investment

- £206bn a year on average over a decade in extra spending and investment
- Funded by £124bn a year in net tax increases, and £82bn a year in additional borrowing

Figure 1 – Fiscal deficits from 2005-06 to 2023–24, not updated for latest economic forecasts or party manifestos (£bn)



Sources: OBR; ONS; HM Treasury, *Spending Round 2019*; ICAEW calculations.

[2] Our financial analysis has been hampered by the failure before the general election was called of the Office for Budget Responsibility (OBR) to update its baseline forecasts for changes in the treatment of student loans; we hope the OBR will adopt a different approach to such changes in the future so that the electorate can be properly informed. The lack of updated economic forecasts has also not helped, with weakening projected tax revenues still to be reflected into the official fiscal forecasts.

Context: the public finances are on a financially unsustainable path

The focus of the general election campaign has been on Brexit and on very different views on the role of the government in the economy.

Unfortunately, there has been little discussion about the long-term challenges facing the public finances, which are unsustainable on their current path.

As illustrated by Figure 1, weak economic growth and the 'end of austerity' mean that deficit reduction has come to an end, even before taking account of the latest economic forecasts or party manifesto plans.

Spending on pensions, health and social care are all projected to increase significantly as more people live longer, with the number of people aged 70 or more projected to increase by 52% over the next 25 years, compared with a 2% increase in those under 70.[3]

Figure 2 highlights how public spending is weighted significantly to those over the age of 70, one of the principal drivers for the OBR's projection for non-interest public spending to increase from 36% of GDP to around 45% over the next 50 years.

This is on top of the £4.6tn of liabilities reported in the latest public sector balance sheet, comprising £2.1tn in debt and other financial liabilities, £1.9tn owed in public sector pension entitlements and £0.6bn in other liabilities.[4]

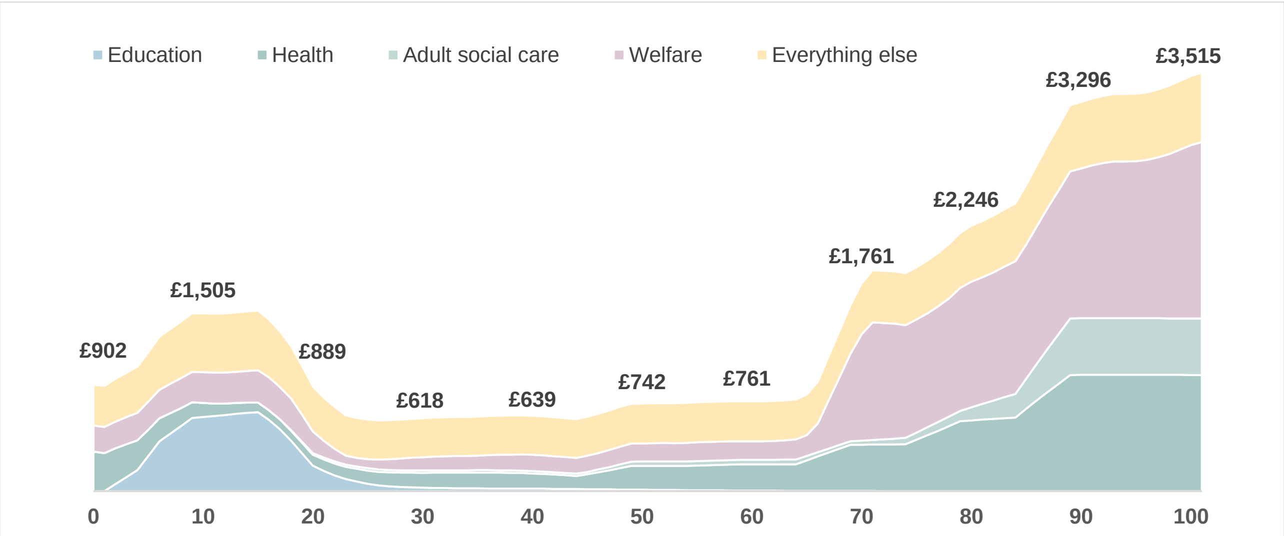
Growth in spending in pensions, health and social care costs over the last 50 years has been accomplished by relatively modest levels of tax increases, thanks to a combination of revenues from North Sea oil and gas and savings in other areas, such as the substantial reduction in defence and security spending to just 2% of GDP.

Both of these sources of funding are not expected to continue. Tax deductions for decommissioning North Sea infrastructure are expected to offset a significant proportion of the remaining oil and gas revenues, while further significant cost reductions in public services appear unlikely to be practical or politically acceptable. Indeed, increases in many areas are now more likely. At the same time, the need for greater investment in economic and social infrastructure is becoming more apparent.

The implication is that taxes will need to rise, for there to be a sustained rise in inward migration, for social provision in retirement to be cut, or a resumption in cuts in spending on public services (or a combination of all four).

None of the major political parties appear to have a fiscal strategy that extends beyond the next five years, with only limited measures to address the big financial challenges of more people living longer. This is disappointing given that relatively small actions taken now could make a big difference to the financial position of the nation in 25 years' time.

Figure 2 – Age profile of public spending (£ per person per month)



Source: OBR, *Fiscal Sustainability Report, July 2018*.

[3] ONS, *Principal population projections 2018-based*.
(2019: 58m <70, 9m 70+ --> 2044: 59m <70, 14m 70+)

[4] HM Treasury, *Whole of Government Accounts 2017-18*.

Risks to the public finances

The OBR set out a wide range of risks to the public finances in its fiscal risks report earlier this year.[5] This highlighted how policy risks are increasing, with the abandonment of the objective of a balanced budget and proposals to increase public spending in multiple areas.

The OBR also highlighted the economic headwinds facing the global economy, the risks associated with Brexit, and noted that recessions generally occur once a decade.

This provides an uncomfortable background for each of the party's manifesto proposals, with the associated risks having significant implications for the public finances.

All the parties are proposing higher borrowing, which comes with increased exposure to changes in interest rates as well as increasing the amount of debt that will need to be refinanced each year. Higher debt also increases the vulnerability of the public finances to an economic downturn, which can be particularly important as it reduces the policy options available to future governments. The parties are also committing to expensive policies such as the triple-lock on the state pension that will reduce the resources available to other public services.

The Conservatives' choice to defer decisions on issues such as social care and defence risk seeing taxes, spending and borrowing increasing by more than the amounts set out in their costings, while there are significant risks attached to their commitment to leave the EU single market and customs union by 31 December 2020 even if they can't agree a new trading relationship with the EU.

The Labour Party is also proposing to assume a significant amount of additional risk by nationalising utilities and train operating companies, substantially increasing its exposure to the operating and financial risks associated with those activities in addition to the risks associated with higher debt.

On the other hand, Labour, Liberal Democrat and Green Party plans for additional investment in renewable energy and energy conservation may help to mitigate some of the risks around climate change, while their plans to increase welfare spending could relieve pressure on other public services.

[5] OBR, *Fiscal risks report, July 2019*.

[6] OBR, *Fiscal sustainability report, July 2018*.

(No) long-term fiscal strategy

None of the political parties have set out a long-term fiscal strategy for the public finances. Nor have any of the parties set out plans to develop such a strategy.

This is extremely disappointing and concerning given the unsustainability in the public finances over the next 50 years identified by the OBR.

Increasing cost pressures on public spending as more people live longer will increase the likelihood that taxes will need to rise, or that costs will need to be cut.

The recent commitments of all the parties to 'end austerity' demonstrates the political difficulty in continuing to cut spending on public services beyond a certain point, while promises to continue the 'triple-lock' on the state pension (all parties), to restrict flexibility in raising taxes (the Conservatives' 'triple tax lock') or to improve welfare benefits (Labour, the Liberal Democrats and the Green Party) demonstrate how difficult it will be to reform welfare provision in a way that reduces cost.

As a consequence, borrowing is likely to increase and – if the economy does not improve – the level of debt and other public liabilities is likely to increase further. The OBR's 2018 fiscal projections suggested that, without tax rises or actions to reduce costs significantly, public sector net debt could increase to 119% of GDP in 25 years' time and 283% of GDP in 50 years' time.[6]

Relatively small actions taken now could make a significant difference over several decades as other countries have found. For example, Australia established a Future Fund to strengthen its long-term financial position, with its initial investment of A$60bn in 2006 growing to A$166bn over 13 years.[7]

Similarly, many other countries have established funds to cover the cost of public sector pensions, national pensions and other financial obligations.

Failing to address the challenges to make the public finances more sustainable will not only entrench intergenerational unfairness, but it will increasingly constrain policy makers in the choices they are able to make. Tax cutters may end up having to increase taxes, while those committed to expanding public services may instead be forced to cut them.

[7] Australia Future Fund, *2018-19 Annual Report*.

Analysis: Higher taxes, spending, investment and borrowing

All the parties are committing to increasing public spending and investment, funded by a combination of higher tax revenues and more borrowing. This is summarised in Table 1, which illustrates how the Conservatives' plans are the most cautious, with relatively limited additional spending commitments beyond those in the Spending Round 2019.[8]

In contrast, Labour, the Liberal Democrats and the Green Party are all promising much larger increases in public spending and investment, funded by significant tax rises and much greater levels of borrowing.

The Conservatives' plans do not take account of a likely deterioration in tax revenues following Brexit, nor significant cost pressures on public services and the deferral of key decisions (such as on social care and defence) that means they are likely to have to increase public spending in future Budgets over the course of the next parliament.

Labour's plans are the most radical, with major economic reforms and utility nationalisation not reflected in their numbers. In addition, Labour's plan to keep the retirement age at 66 would have significant long-run implications for the public finances.

The Liberal Democrat plans are more conventional in nature, if not in size, with plans to increase taxes and borrowing to fund higher spending and capital investment. The IFS has described their estimate of higher tax revenues from cancelling Brexit as 'within a reasonable range of estimates'.[9]

The Green Party's plans for tax and current spending appear much more expensive than they actually are, with a universal basic income inflating the gross amounts reported. However, their capital investment plans are the largest of all the parties.

In practice, all of the manifesto costings are subject to a high degree of uncertainty and risk, both from the economy and in the deliverability of their spending plans.

Table 1 – Party manifesto tax and spending proposals

Party manifesto costing summaries Changes in annual tax, spending and borrowing	**Conservatives (in 2023–24) £bn**	**Labour (in 2023–24) £bn**	**Lib Dems (in 2024–25) £bn**	**Greens (per year) £bn**
Net tax increases	3.7	77.9	37.1	124.4
Higher tax revenues from economic growth	-	5.0	14.3	-
Incremental current spending	(2.9)	(82.9)	(50.5)	(124.4)
Net change in current deficit	**0.8**	**-**	**0.9**	**-**
Incremental capital investment	(8.1)	(55.0)	(26.0)	(82.1)
Uncosted promises	(4.0)	(11.6)	-	-
Net change in deficit (additional borrowing)	**(11.3)**	**(66.6)**	**(25.1)**	**(82.1)**
Proposals as a proportion of GDP				
Net tax increases	0.1%	3.1%	1.4%	4.7%
Higher tax revenues from economic growth	-	0.2%	0.5%	-
Incremental current spending	(0.1%)	(3.3%)	(1.9%)	(4.7%)
Net change in current deficit	**-**	**-**	**-**	**-**
Incremental capital investment	(0.3%)	(2.2%)	(1.0%)	(3.1%)
Uncosted promises	(0.1%)	(0.4%)	-	-
Net change in deficit (additional borrowing)	**(0.4%)**	**(2.6%)**	**(1.0%)**	**(3.1%)**

Sources: Party manifesto costing documents, adjusted for the Conservatives' promise to freeze fuel duties and Labour's post-manifesto commitment to compensate WASPI women over five years. Labour costings do not include revenues, spending, investment and borrowing from plans to nationalise utilities, Inclusive Share Trusts, or a retirement age of 66.

[8] ICAEW, *Spending Round 2019 Fiscal Insight*.

[9] IFS, *General Election 2019: Party manifesto analysis*.

Table 2 – Planned increases in current spending

Party manifesto costing summaries Public sector current spending	**Conservatives (in 2023–24) £bn**	**Labour (in 2023–24) £bn**	**Lib Dems (in 2024–25) £bn**	**Greens (per year) £bn**
Welfare	0.1	9.0	10.6	73.6
Health and social care	1.7	17.7	2.1	11.5
Education and childcare	1.0	30.5	26.4	14.8
Public services	0.1	15.4	5.3	24.5
Scotland, Wales and Northern Ireland	(inc. above)	10.3	6.1	(inc. above)
Total incremental current spending	**2.9**	**82.9**	**50.5**	**124.4**

Sources: Party manifesto costing documents, adjusted to net off amounts already included in the Spending Round 2019 (Liberal Democrats £12.5bn) and cuts and savings (Green Party £17.1bn). The Conservatives and the Green Party's numbers include Barnett consequentials for Scotland, Wales and Northern Ireland, while these are shown separately by Labour and the Liberal Democrats.

Current spending

All the parties are promising to increase current spending, albeit the Conservatives' plans are relatively modest. Their main commitments are for £1.6bn to fund additional staff in the NHS and £0.6bn for skills and training on top of the £13bn in the Spending Round 2019 in October.

Labour's plans are much more radical, with £13.6bn to scrap student loans, £10.8bn for social care, £8.4bn for working-age benefits, £6.9bn for health, £5.6bn for early years education, £5.5bn for schools, £5.3bn for public sector pay increases, £5.0bn for local government and £4.7bn for further education and skills, among other commitments.

This contrasts with the Liberal Democrats, who plan to spend £14.0bn on childcare and early years education, £9.4bn on welfare, £8.6bn on schools, £3.4bn on public transport and the environment, £2.9bn on further education and skills and £1.2bn on free school meals, among other proposals.

The Green Party's manifesto appears more costly than it is, with its £86.2bn plan to introduce a universal basic income involving a switch from tax allowances (deducted from tax revenues) to cash spending, causing reported tax and spending to both increase. Even so, their plans will involve a significant amount of additional spending in other areas with £10.0bn for local government, £7.8bn on scrapping university tuition fees, £7.0bn on health, £6.5bn on climate adaptation and environmental improvements, £4.5bn on social care, £4.0bn on schools, £4.0bn on public transport and cycling, and £3.0bn on adult education.

The Conservatives' plans for public spending are likely to be understated, with next year's Spending Review likely to recommend more expenditure on public services. These include potentially increasing defence and security spending above the NATO 2.0% minimum and more funding for the criminal justice system and adult social care, where policy proposals have again been deferred until after an election. There are also questions as to whether planned cuts in welfare spending with the roll-out of Universal Credit will be achievable.

The other parties also face similar issues, albeit to a lesser extent, with cost pressures in the areas that they haven't prioritised. For example, Labour and Green Party plans to abolish tuition fees will not address cost pressures in the university sector.

The three parties promising large spending increases may find it difficult to deliver on their promises and spend all of the money they are allocating. For example, it is likely to be difficult to find all the additional staff and facilities that would be needed to deliver Labour plans for adult social care, nor the nursery staff needed to deliver on the Liberal Democrat commitment of universal childcare from nine-months old.

Both the Conservatives and Greens have assumed that the devolved administrations will increase spending in line with their proposals, whereas Labour and the Liberal Democrats have shown the 'Barnett consequentials' of higher spending in England separately, given the devolved administrations' discretion over how they spend the additional funds they receive.

Capital investment – with a focus on climate sustainability

The Conservatives have a new fiscal rule that permits public sector net investment to go up to 3% of GDP on average over a five-year period provided that interest rates do not rise significantly. Their manifesto proposes an additional £3.3bn in 2020–21, £4.3bn in 2021–22, £6.2bn in 2022–23 and £8.1bn in 2023–24, an average of £5.5bn a year, leaving them capacity to increase investment spending in future Budgets against the £15bn or so of remaining headroom under this rule.

In 2023–24, the Tories plan to invest £3.2bn on research & development, £2.3bn on decarbonisation (including £1.0bn to insulate homes), £0.8bn on flood defences, £0.8bn on intra-city transport, £0.5bn on potholes, £0.3bn on further education colleges and £0.2bn on electric vehicles and cycling.

In contrast, Labour provides much less financial detail on its much larger investment plans, which are for an average of £25bn a year over 10 years on green programmes and £30bn a year over five years on social infrastructure. The former includes substantial amounts for public transport (buses and trains), as well as renewable energy and decarbonisation, while the latter will “upgrade, replace and expand” schools, hospitals, care homes and council houses.

Labour does not include the annual capital expenditure that will be incurred by the utilities that it plans to nationalise. This would switch private sector investment to public sector investment, increasing the reported fiscal deficit accordingly.

The Liberal Democrats plan to invest an average of £3bn a year in reducing energy consumption from buildings, £2bn a year on renewable energy, £1bn a year on flood prevention and climate adaption, and £1bn a year for a Green Investment Bank. However, they do not provide specific amounts for their proposals to invest large amounts in the railways, schools, hospitals, and in building 100,000 social homes a year.

The Green Party sets out more detail in their 10-year plan to invest £26.9bn a year on green energy measures, £31.6bn a year on insulating buildings, £16.7bn on railways, electric vehicles and cycling, £10.2bn on social housing and £9.0bn on R&D and industrial processes, offset by £12.3bn in savings, including from scrapping Trident, new road building, HS2 and Help to Buy. They also believe that they can attract £50bn a year in additional private sector investment.

Even more than with current spending, the extremely large investment programmes set out by Labour and the Green Party (and to a lesser extent the Liberal Democrats), are not likely to be fully achievable in the time scales proposed. The time to plan the major programmes contemplated, obtain the necessary planning permissions, and to find and train sufficient construction workers, are all likely to result in slippage into later years (if not the next decade).

There are also significant risks in achieving value for the money spent, with the UK public sector not having the best track record in delivering large scale capital programmes.

Table 3 – Capital investment

<table>
<tr><th>Party manifesto costing summaries
Public sector investment</th><th>Conservatives
(in 2023–24)
£bn</th><th>Labour
(per year)
£bn</th><th>Lib Dems
(per year)
£bn</th><th>Greens
(per year)
£bn</th></tr>
<tr><td>Renewable energy, decarbonisation, flood defences</td><td>3.1</td><td rowspan="2">25.0</td><td>7.0</td><td>58.5</td></tr>
<tr><td>Transport</td><td>1.5</td><td>10.2</td><td>16.7</td></tr>
<tr><td>Social housing</td><td>-</td><td rowspan="2">30.0</td><td rowspan="2">8.8</td><td>10.2</td></tr>
<tr><td>Other (including R&D)</td><td>3.5</td><td>9.0</td></tr>
<tr><td>Less: cuts in existing investment programmes</td><td>-</td><td>-</td><td>-</td><td>(12.3)</td></tr>
<tr><td>Total incremental investment</td><td>8.1</td><td>55.0</td><td>26.0</td><td>82.1</td></tr>
</table>

Sources: Party manifesto costing documents.

Table 4 – Tax revenues

Party manifesto costing summaries Public sector investment	**Conservatives (in 2023–24) £bn**	**Labour (in 2023–24) £bn**	**Lib Dems (in 2024–25) £bn**	**Greens (per year) £bn**
Tax rises: Personal and transaction taxes	0.9	23.3	20.4	40.7
Tax rises: Business taxation	6.3	48.4	10.9	93.7
Tax cuts: Personal and transaction taxes	(1.2)	-	-	(9.5)
Tax cuts: Business taxation	(2.5)	-	-	(3.5)
Anti-avoidance measures	0.2	6.2	5.7	3.0
Net tax increase	**3.7**	**77.9**	**37.0**	**124.4**

Sources: Party manifesto costing documents. Labour's estimate of £5.0bn in higher tax revenues from fiscal stimulus from its capital investment programme and the Liberal Democrats estimate of £14.3bn in higher tax revenues from better economic growth from cancelling Brexit are shown separately in Table 1.

Tax revenues

All the parties plan to raise taxes to fund their spending proposals, while using borrowing to fund their capital investment programmes.

The Conservatives have set out detailed measures to increase the legislated rate of corporation tax from 1 April 2020 from 17% to 19%. This is expected to generate an extra £6.2bn a year in 2023–24, with a £0.6bn immigrant health surcharge and £0.3bn in a plastic packaging tax bringing this to £7.2bn.

They plan to return £1.2bn of this in 2023–24 to working households through an increase in the threshold for national insurance, and just under £2.5bn to businesses.

Labour plans large tax rises, with significant increases in both personal and business taxes. Their headline proposal is to increase income tax rates by five percentage points on those earning over £80,000, but this is expected to collect only £5.4bn in 2023–24. Increasing rates of taxation on capital gains and dividends is expected to raise £14.0bn, while a swathe of other tax changes (inheritance tax, VAT on private school fees, abolishing the Married Persons Allowance and a second homes tax) are expected to raise £3.9bn. This leaves most of the revenue to be raised to come from business taxation, with £23.7bn from increasing corporation tax rates, £8.8bn from a financial transactions tax, £8.3bn from removing corporate tax reliefs, £6.3bn from taxing multinationals, and £1.3bn from banks.

A one-off £11bn windfall tax on oil and gas producers planned by Labour is not included as it shouldn't affect 2023–24.

The Liberal Democrats plan to raise £7.7bn a year from a 1p increase in income tax rates, £5.7bn a year from capital gains tax, £4.9bn a year from increasing air passenger duty on frequent flyers, £1.5bn a year from taxing cannabis sales and £0.6bn a year from abolishing the Married Persons Allowance; a total of £20.4bn a year by 2024–25.

Their plans for business taxation are more modest, with £9.9bn a year from increasing the corporation tax rate from 1 April 2020 from 17% to 20%, and £1.0bn from increasing the digital services tax.

The Green Party's plans for personal taxation are inflated by the introduction of a universal basic income, with much of the £21.7bn a year increase in income tax revenues being from the conversion of personal tax allowances into cash payments. Their main personal tax proposals are for £8bn in taxes on drugs, £8bn from the taxation of pensions and £3bn from increasing alcohol duties.

The Greens' largest tax proposal is for a £76.7bn a year carbon tax, while they propose to raise £12.0bn a year from corporation tax and £5bn a year from new taxes on banking. They expect to offset this with £9.5bn a year in lower VAT on leisure activities and household repairs, and £3.5bn a year less in employers' national insurance.

It is important to understand that although all parties expect businesses to pay a substantial proportion of the additional revenues they propose to raise, the majority of this is likely to be passed on to consumers in the form of higher prices or to investors through lower shareholder returns.

Borrowing

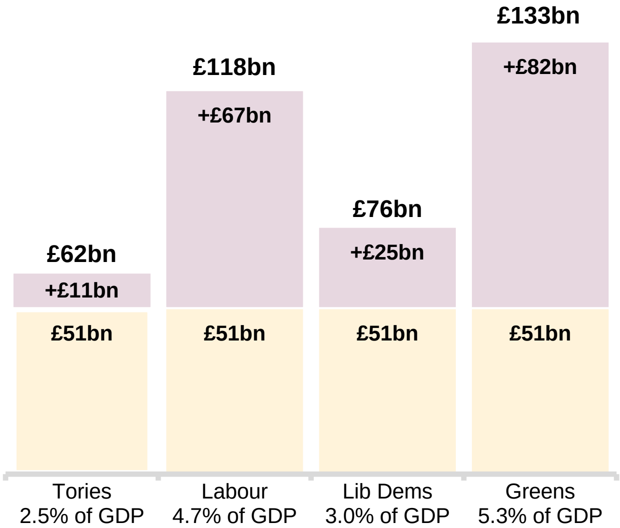
Figure 3 sets out the effect of the proposed party manifestos on the deficit in 2023–24, subject to a caveat that Labour has not included any additional borrowing to finance its nationalisation plans, nor has it included the in-year borrowing of the utilities concerned that would also count towards public sector net borrowing, the official measure for the deficit.

With the exception of the Conservatives (who may need to increase borrowing after the election in any case), the parties are all proposing significant increases in annual levels of borrowing.

The amounts for the Liberal Democrats and the Green Party have not been adjusted to be strictly comparable with the Conservatives and Labour plans for the 2023–24 financial year, although they do provide an indication of the order of magnitude of their proposals.

The baseline forecast deficit has not been adjusted for recent economic forecasts that are likely to mean greater annual borrowing than that shown irrespective of the party in power, nor for potentially adverse scenarios concerning a non-benign Brexit. The IFS has estimated the latter could cause borrowing in 2023–24 to increase by around 2.5% of GDP.[10]

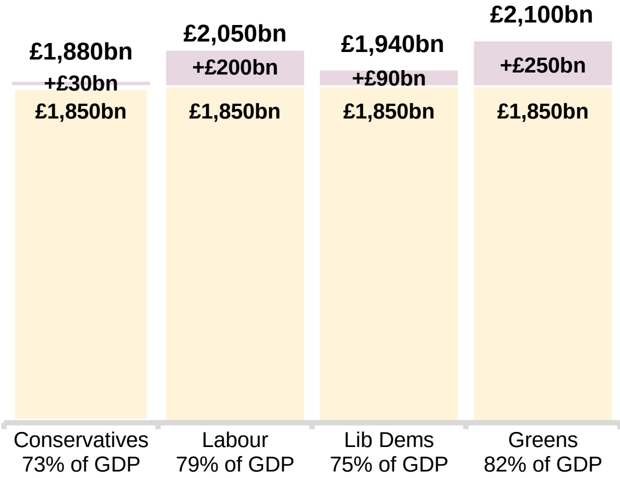
Figure 3 – Public sector net borrowing (2023–24)



Sources: ICAEW calculations; OBR (GDP of £2,529bn in 2023-24). Excludes the potential impact of a disruptive Brexit (Conservatives), post-nationalisation borrowing (Labour) and the economic effect of proposals on GDP (all).

Debt and the balance sheet

Figure 4 – Public sector net debt at 31 March 2024



Sources: ICAEW rough calculations; OBR (GDP of £2,576bn at 31 March 2024). Excludes the potential impact of a disruptive Brexit (Conservatives), debt from nationalising utilities and post-nationalisation borrowing (Labour) and the economic effect of proposals on GDP (all).

None of the parties provide an analysis of their proposals on public sector net debt (the principal official measure of public indebtedness), public sector net worth (a partial balance sheet measure) or the full public balance sheet.

This is disappointing given the scale of the £2.0tn in public assets and £4.6tn in liabilities reported in the *Whole of Government Accounts* at 31 March 2018 and the importance in how they are managed for the economy and the public finances.

All the parties' proposals will result in additional borrowing and hence higher levels of public debt. However, in practice all the parties aspire not to repay debt (unlike the German government for example) but for the nation's debts to become more affordable as the economy grows.

The IFS has estimated that the public sector net debt to GDP ratio would fall by around 4% under the Liberal Democrats' plans (based on higher economic activity if Brexit is cancelled), while it would increase by around 5% under Labour's plans (excluding nationalisations).[5] The Conservatives' plans for additional borrowing should be offset by economic growth, keeping the ratio constant, although the IFS estimates that a disruptive Brexit from could cause the ratio to increase by a further 6% with higher debt and lower national income.

[10] IFS, *General Election 2019: Party manifesto analysis*.

Labour's nationalisation plans

Labour's costings do not include the estimated couple of hundred billion pounds that the government would need to nationalise electricity, gas, water and telecom utilities. Neither does their analysis include the revenues, expenditures, capital investment and borrowing of these utilities (or of train operating companies when their franchises expire) that would be included in the public finances once they were owned by the state.

Labour describes their nationalisation proposals as being fiscally neutral, in the sense that the government acquires the assets of the utilities concerned at the same time as taking on their debts and raising new debt to pay shareholders.

This can be argued to be the case on day one of an acquisition, assuming a fair price is paid, as the value of assets acquired should equal the value of the associated debt at that point in time.

However, the values of the assets and the debts will subsequently diverge. If the nationalised utilities are managed well, then asset values should increase, otherwise they could reduce in value. The cost of servicing and refinancing the associated debt could also change as interest rates go up or down.

Another potential issue arises from the borrowing that will be needed to finance capital investment subsequent to their nationalisation. The experience in the UK of state-owned businesses has been that their borrowing has been constrained as part of the government's management of the overall public finances, potentially disrupting investment programmes that extend over multiple years, risking a deterioration in the quality of those networks.

There are also risks surrounding the actual process of nationalising privately-owned businesses, with litigation and international investor dispute claims highly likely.

Fiscal rules

Table 5 – Fiscal rules

Fiscal rules	
Conservatives	Current budget in balance by 2022–23
	Public sector net investment < 3% of GDP
	Interest < 6% of government revenue
Labour	Current budget in balance in five years' time
	Public sector net worth to increase by 2024
	Interest < 10% of tax revenue
	Can be suspended in certain circumstances
Liberal Democrats	Plan for current budget to be in balance
	Increase spending by at least inflation
	Public debt to national income ratio to decline

Source: Party manifestos.

The three largest parties have each committed themselves to fiscal credibility rules that they would apply to the public finances. These rules are designed to ensure that the public finances are perceived as being well managed, imposing discipline to ensure fiscal responsibility.

The main change over previous rules is that the Conservatives have joined Labour and the Liberal Democrats in targeting the current deficit (receipts less current spending) rather than the overall deficit (receipts less current spending and investment). Labour's adoption of a wider balance sheet measure instead of public sector net debt is an improvement, although they have chosen a partial rather than full measure of the balance sheet.

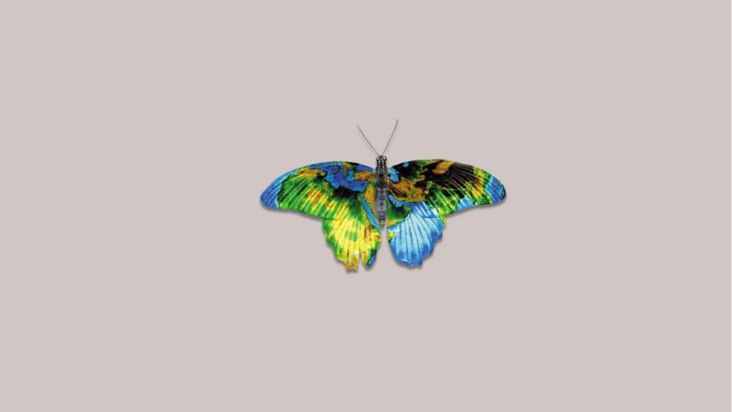
Unfortunately, the problem with self-imposed fiscal rules such as these is that they have not been a great success. Many of the previous rules have not been met or have been replaced before the target date on which they would have applied. Or they have been based on a rolling-target where success will never be tested, such as Labour's manifesto commitment to eliminate the current budget deficit at the end of the five-year forecast period, a point in time that will move forward every year.

Fiscal rules have also struggled to adapt to different stages of the economic cycle, often being breached at the bottom of the cycle or too loose at the top.

GE 2019: It's More Than a Vote

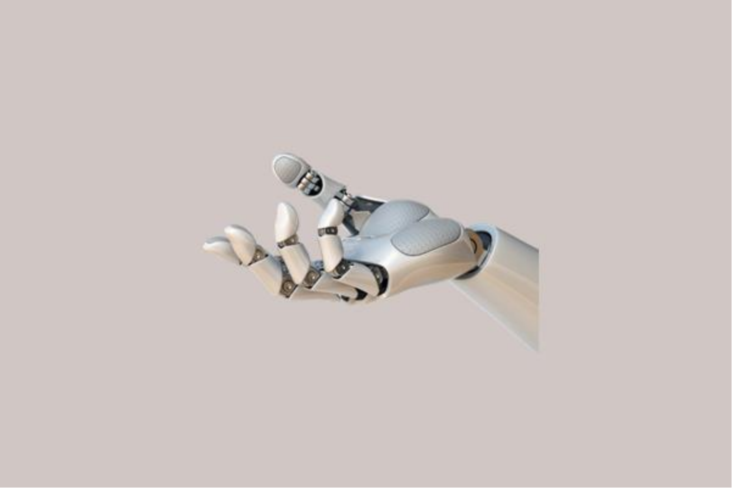
Sustainability

How and when can we achieve a zero-carbon future, both in this country and globally?



Technology

How do we harness the potential of technological innovation to achieve a more productive economy?



Public finances

How do we support public services without indebting future generations?

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