



Carl Emmerson

24 June 2024

@TheIFS

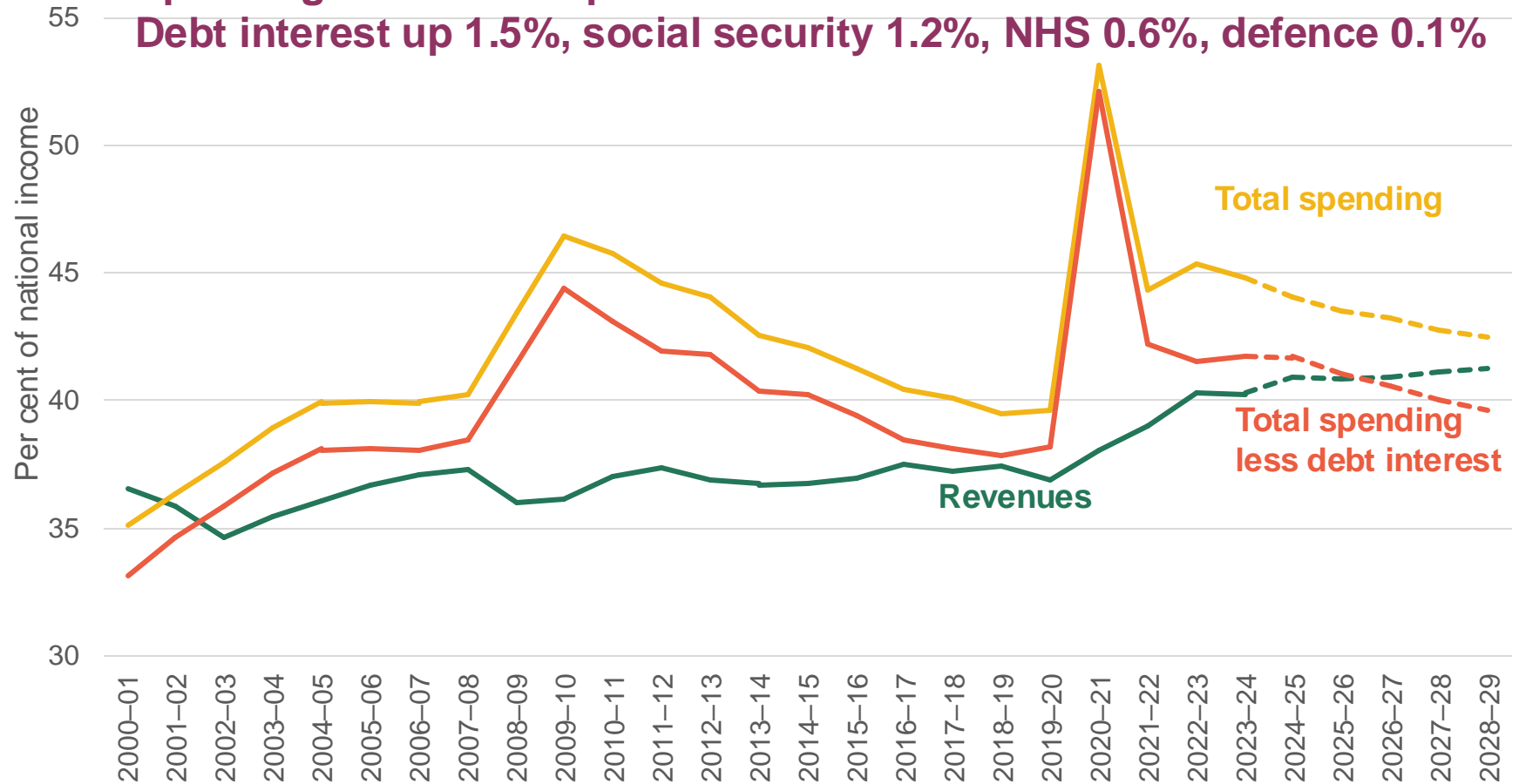
The public finances in the coming parliament



Taxes up and rising Spending up and falling

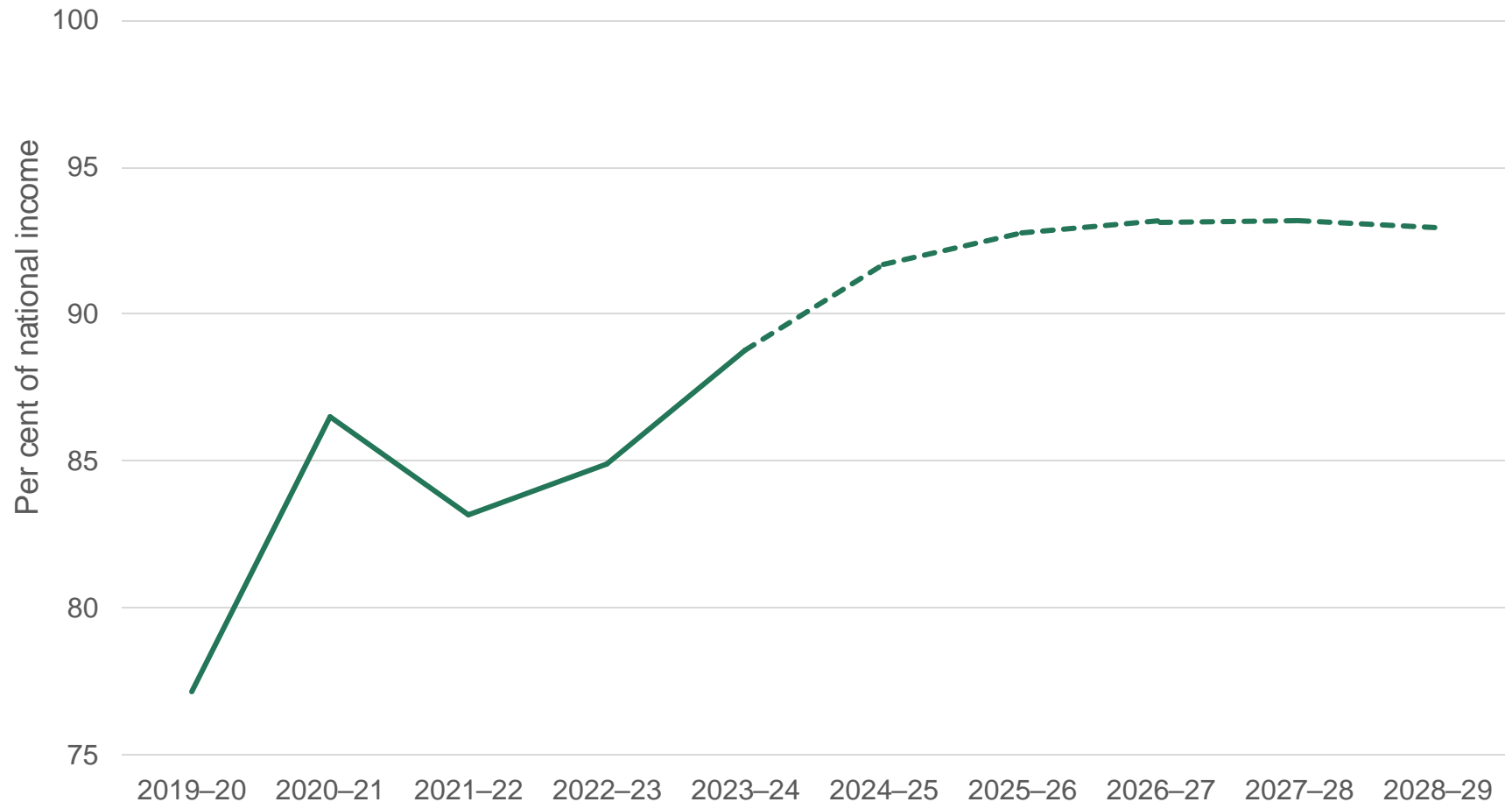
Spending in 2024–25 up 4.5% of GDP since 2019–20.

Debt interest up 1.5%, social security 1.2%, NHS 0.6%, defence 0.1%



Source: Economic & Fiscal Outlook (March 2024), Department for Work and Pensions Benefit Expenditure Tables (May 2024).

Debt rising and then, just about, falling

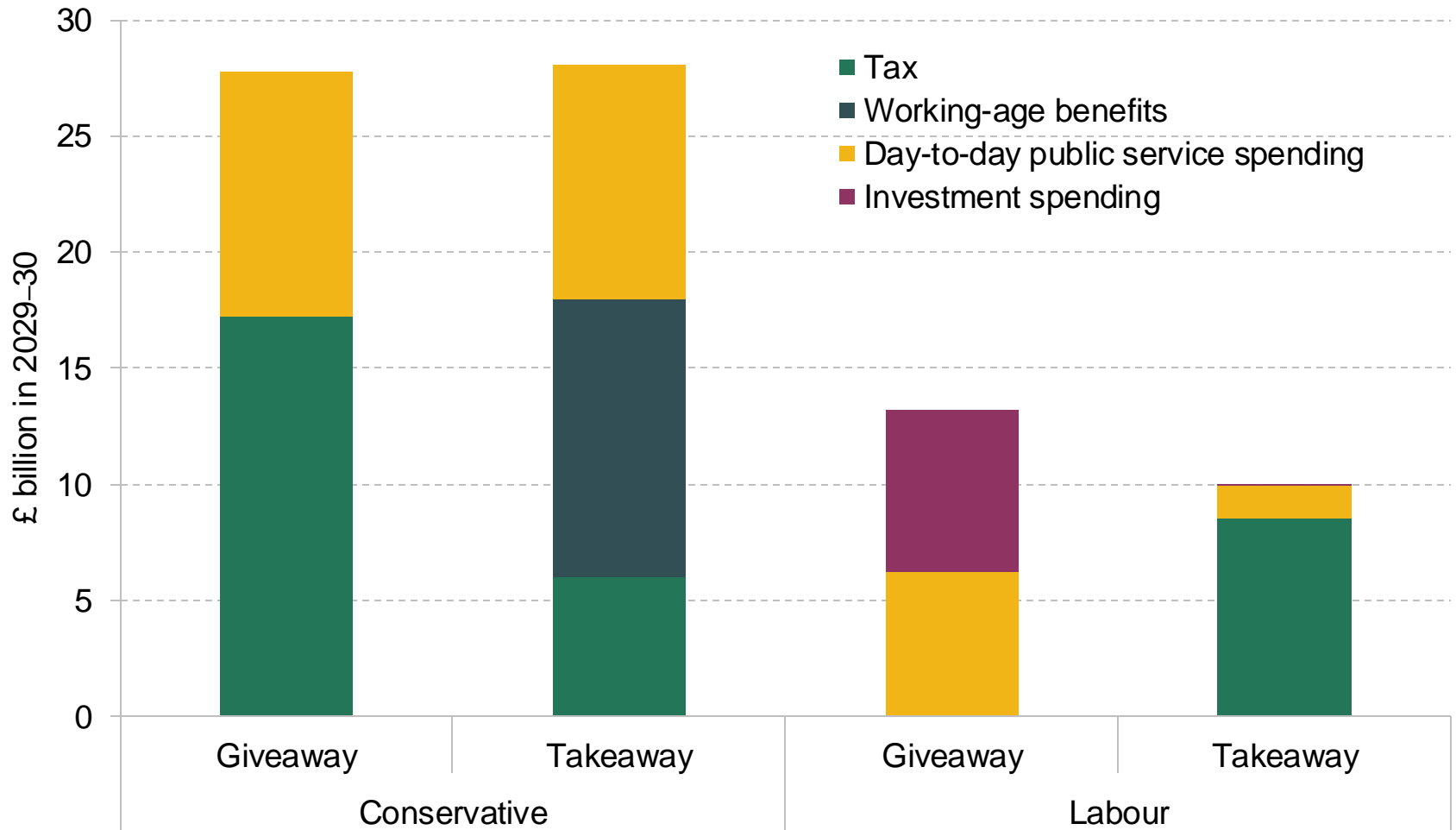


Source: Economic & Fiscal Outlook (March 2024).

Fiscal targets

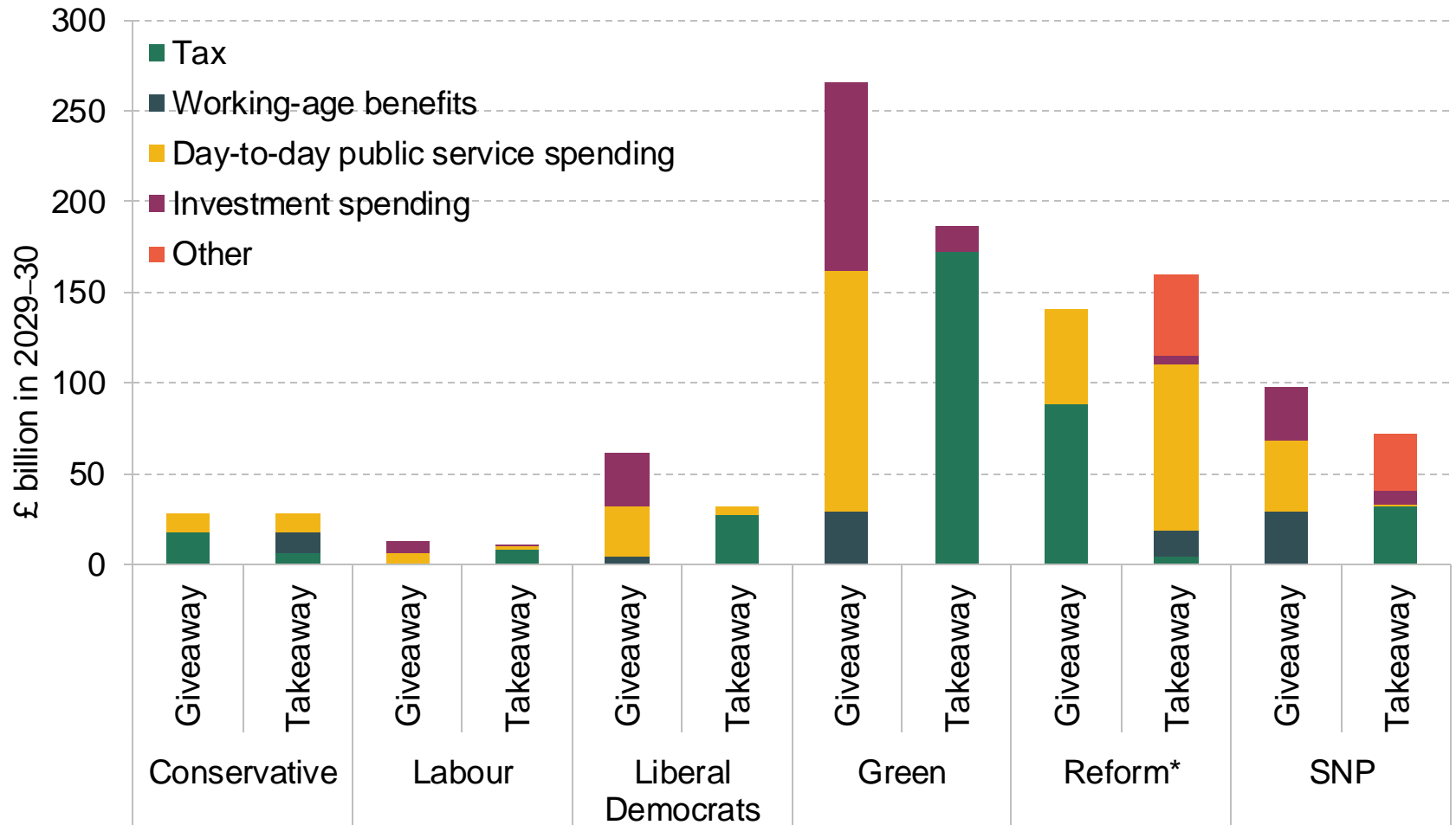
- **Conservative and Labour both target the forecast 5 years out**
- **Borrowing**
 - Conservatives: borrowing below 3% of GDP; this is loose, compares to pre-2008 average of below 2%
 - Labour: current budget in balance; this has much to commend it, and is tighter than the Conservative one
- **Debt**
 - Conservatives and Labour: debt/GDP falling
 - an arbitrary and gameable target
 - for better or worse does not distinguish between investment and other spending
 - this is the binding target

Manifesto costings compared



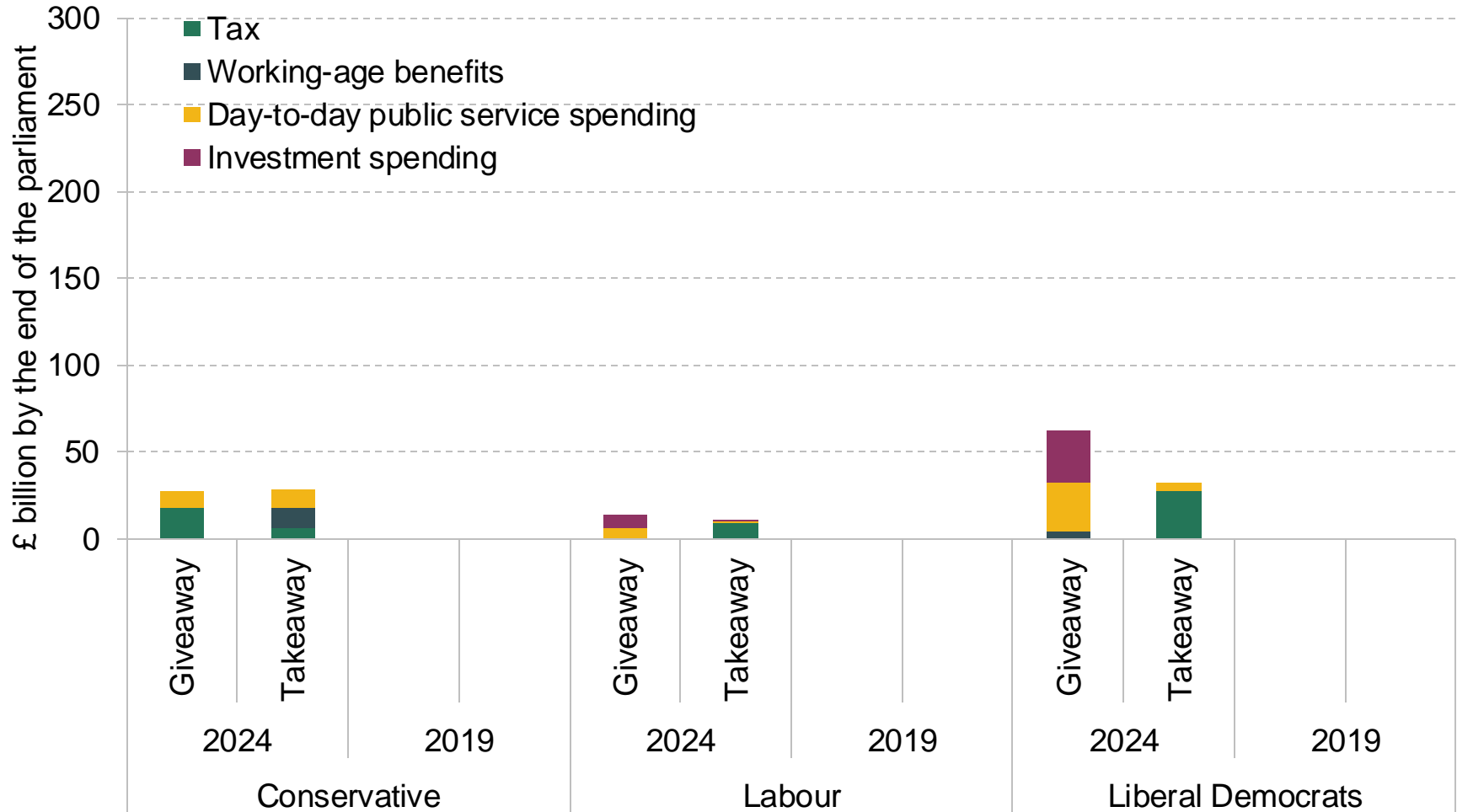
Source: Authors' calculations based on parties' manifestos.

Manifesto costings compared



Source: Authors' calculations based on parties' manifestos. * Reform figures are averages over parliament, not 2029–30

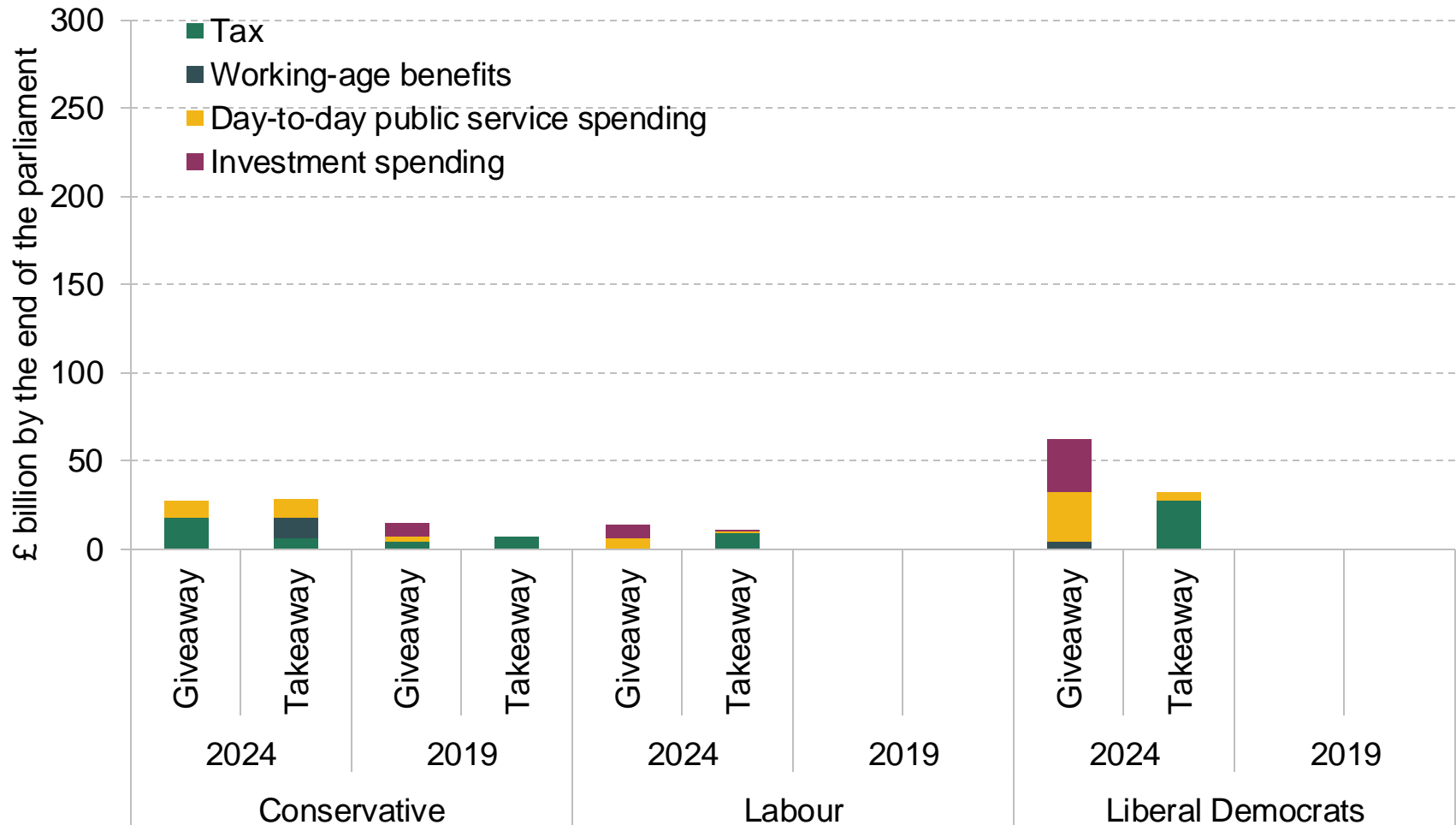
Manifesto costings compared



Source: Authors' calculations based on parties' manifestos.

Note: 2024 values refer to 2029–30 and 2019 values refer to 2024–25 with no adjustment for inflation

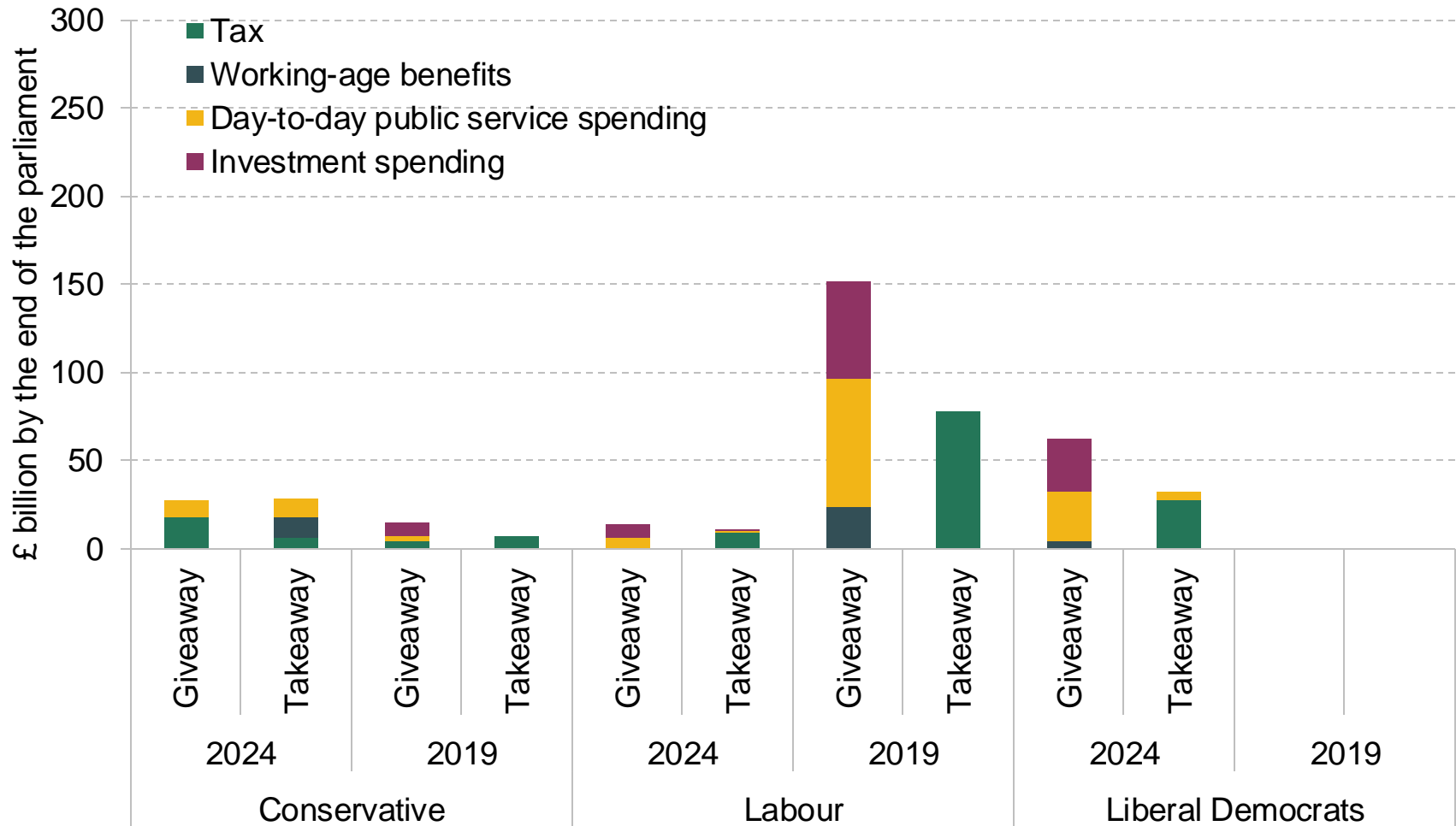
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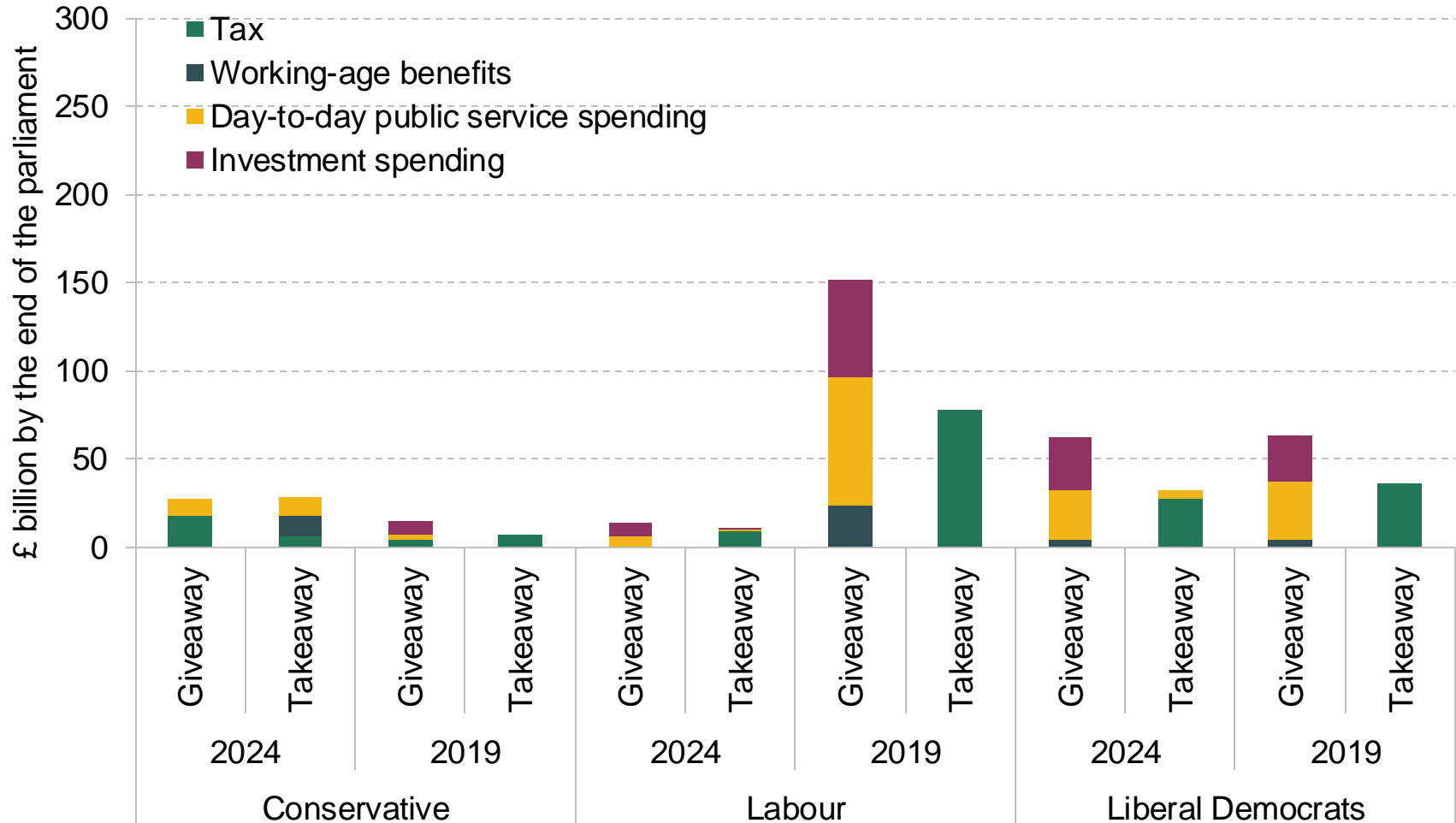
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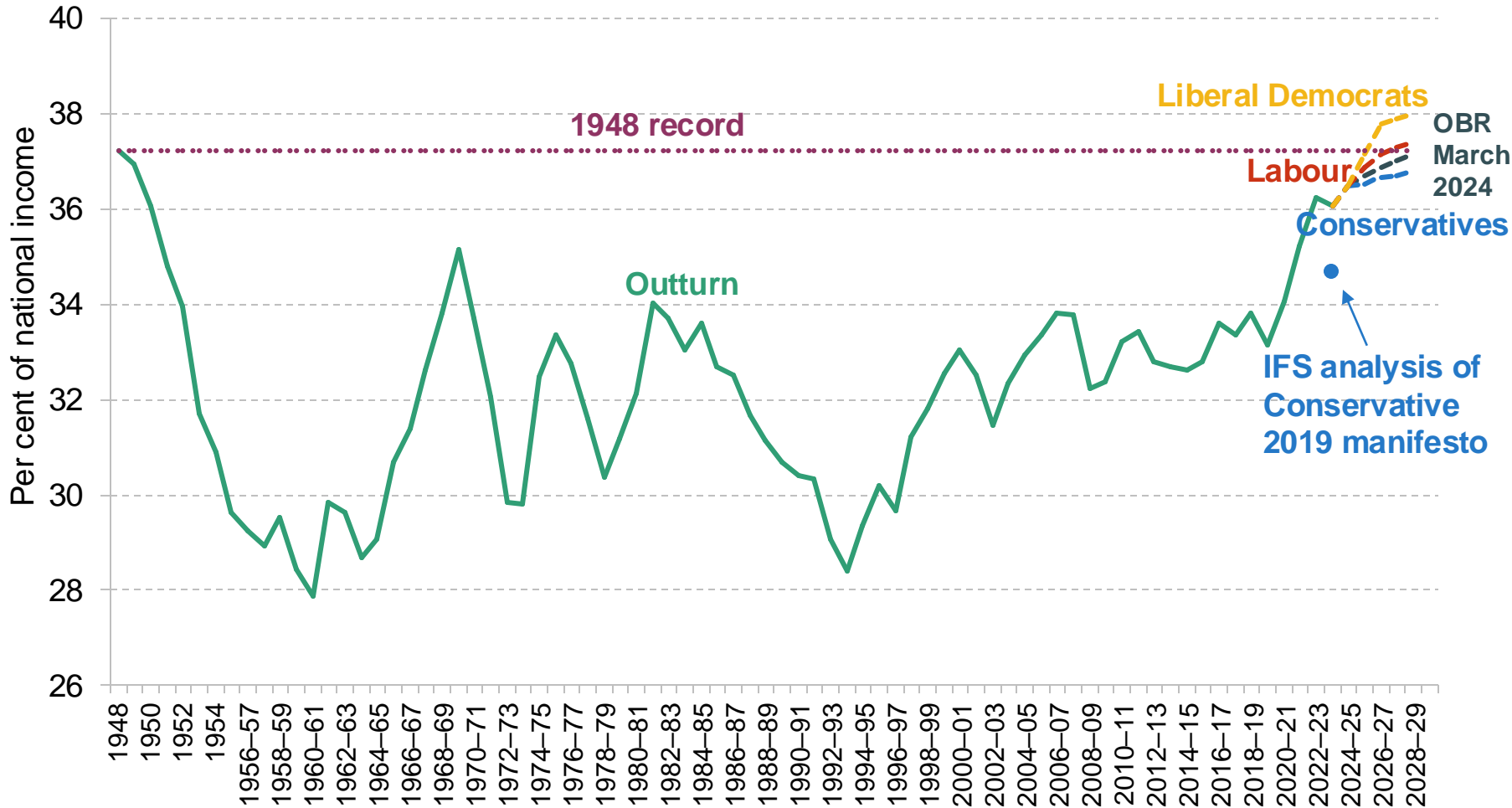
Manifesto costings compared



Source: Authors' calculations based on parties' manifestos.

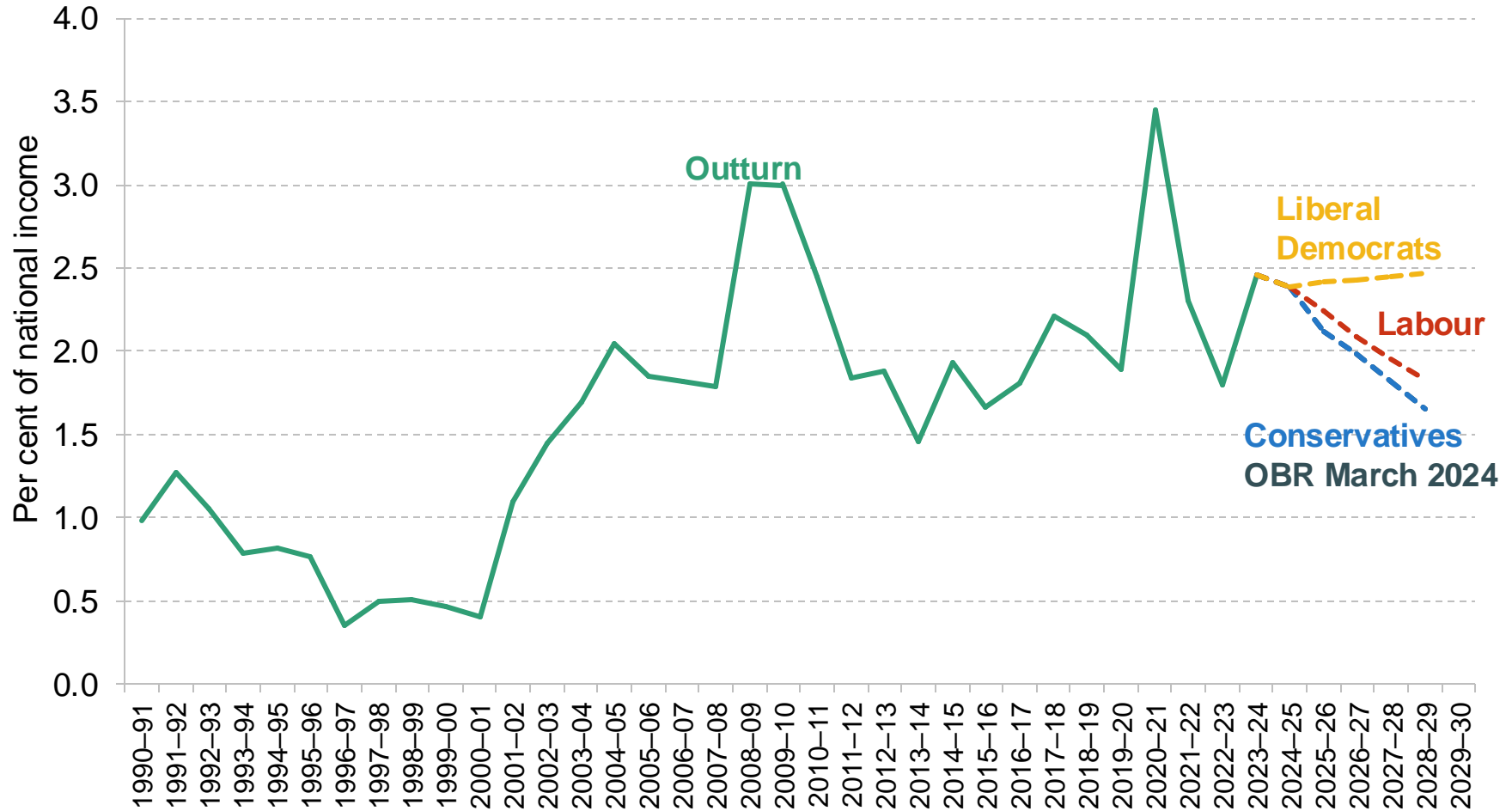
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Taxes to rise further?



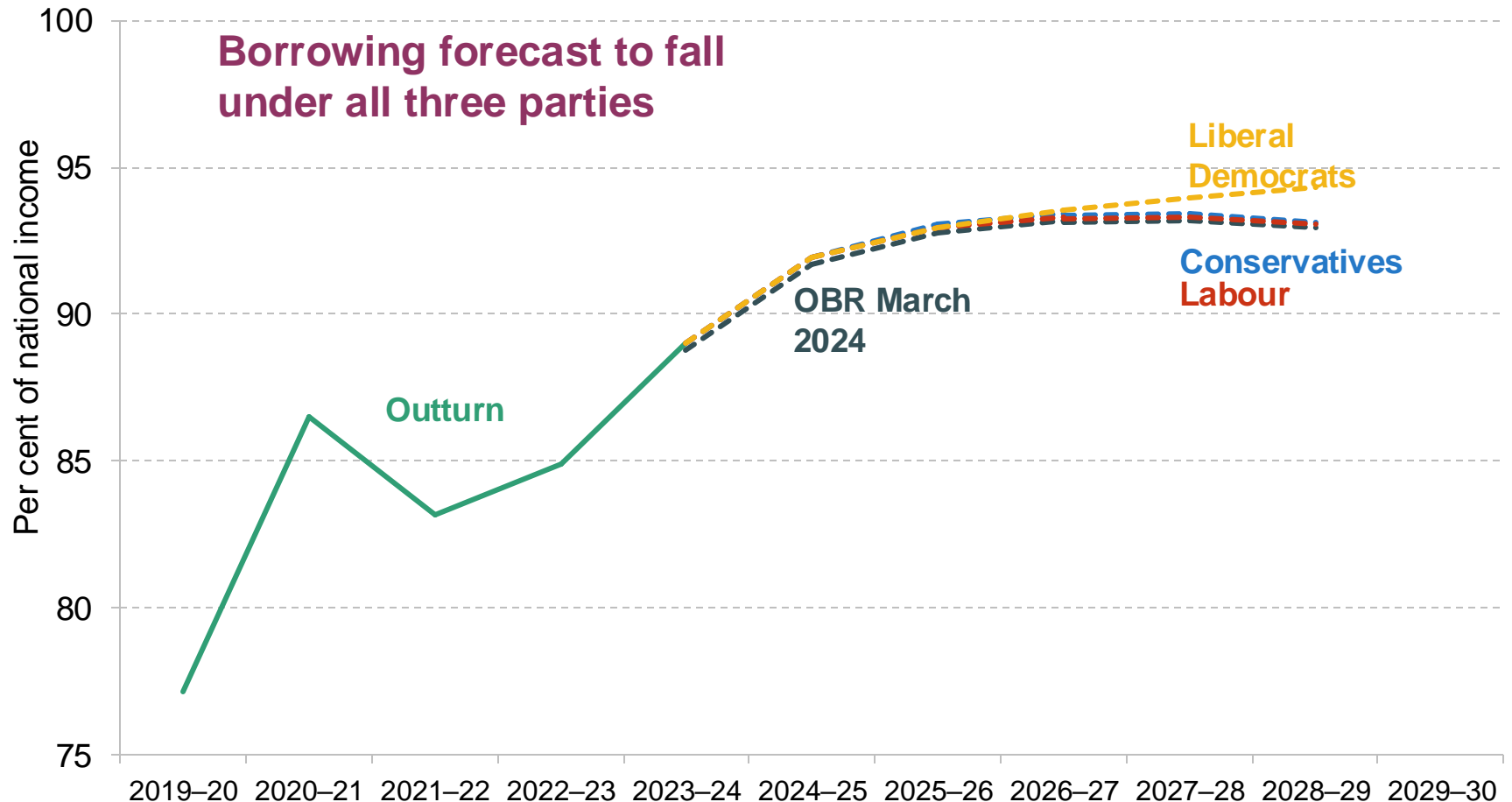
Source: Economic & Fiscal Outlook (March 2024) and authors' calculations based on parties' manifestos.

Investment cuts coming?



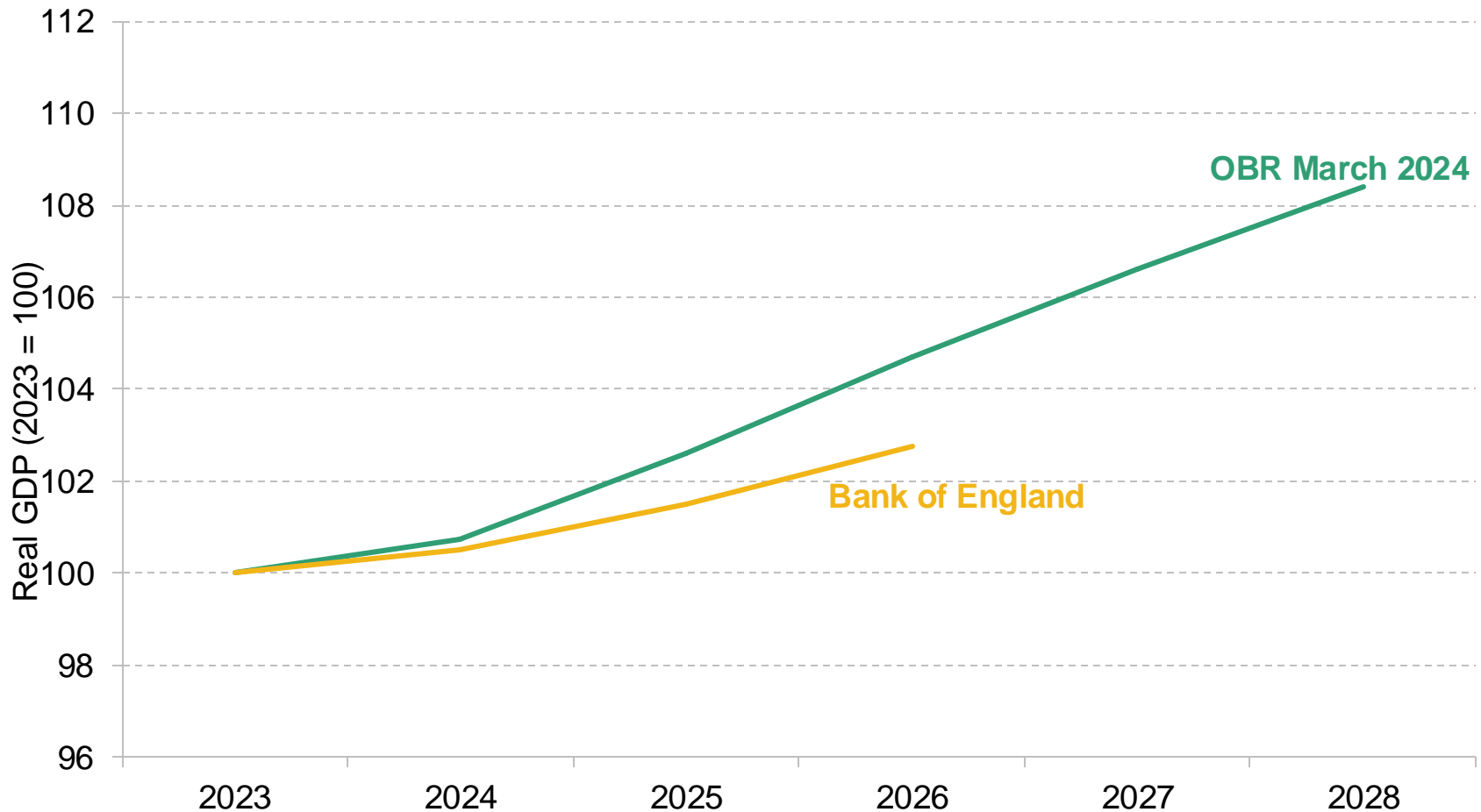
Source: Economic & Fiscal Outlook (March 2024) and authors' calculations based on parties' manifestos.

Public sector net debt



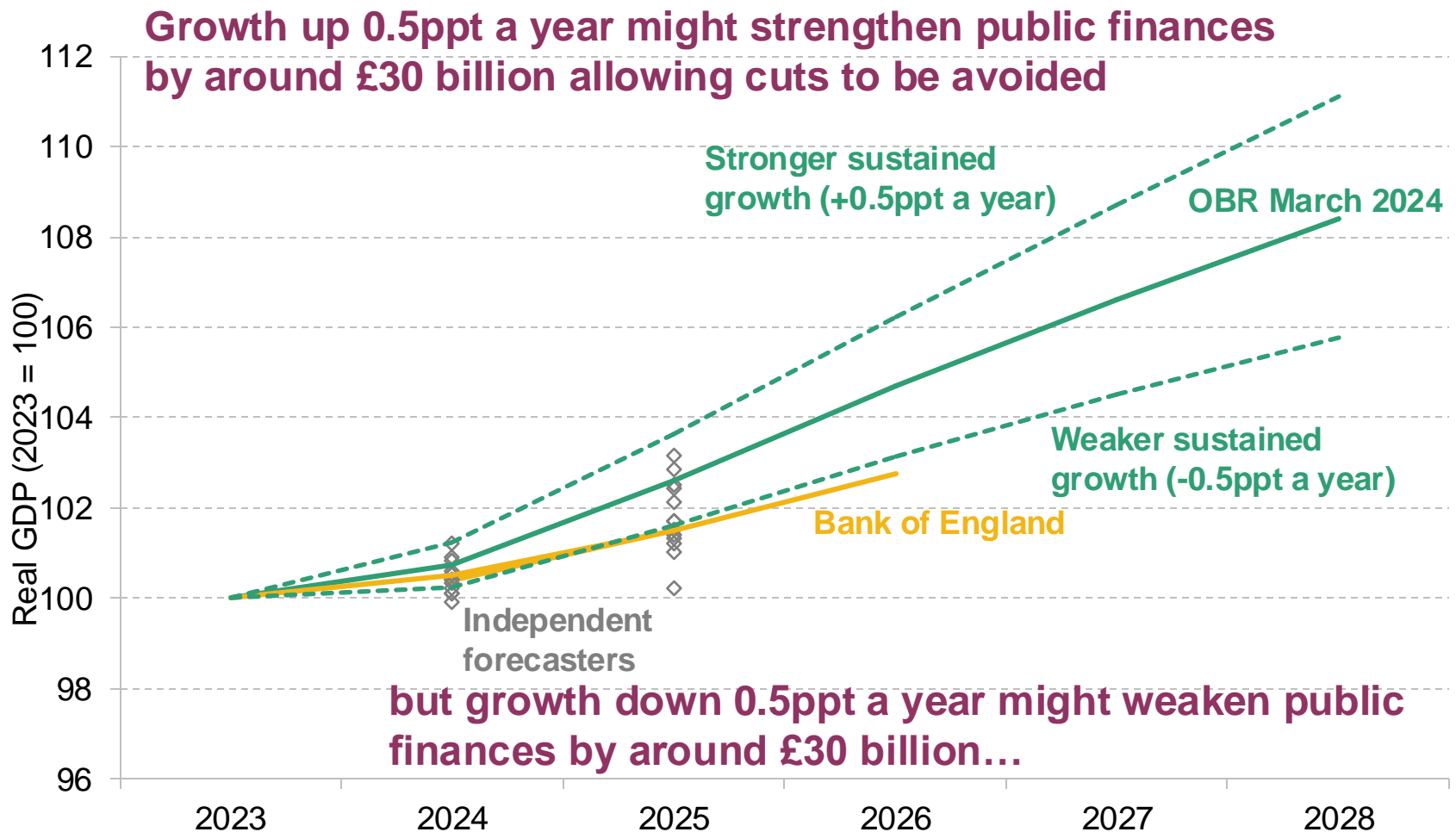
Source: Economic & Fiscal Outlook (March 2024) and authors' calculations based on parties' manifestos.
 Note: Net debt excluding the Bank of England.

An uncertain growth outlook



Source: HMT survey of independent forecasters (April 2024 forecasts); Office for Budget Responsibility, Economic and Fiscal Outlook (March 2024); Bank of England, Monetary Policy Report (May 2024).

An uncertain growth outlook



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Growth to the rescue?

- **Better and stable policies could boost growth**
 - investment, trade, competition, tax reform, planning, immigration, education, ...
- **Green investments don't have growth as their primary aim**
 - might be growth enhancing or, perhaps, help to reduce some downside risks to growth
 - in some cases cleaner, but not more, output
- **Supply side benefits take time to emerge**
 - March 2020 Budget added 30% to investment plans and OBR judged it would eventually increase growth by 0.1ppt a year
 - but assumed “boost would only be felt beyond our five-year medium-term forecast horizon”

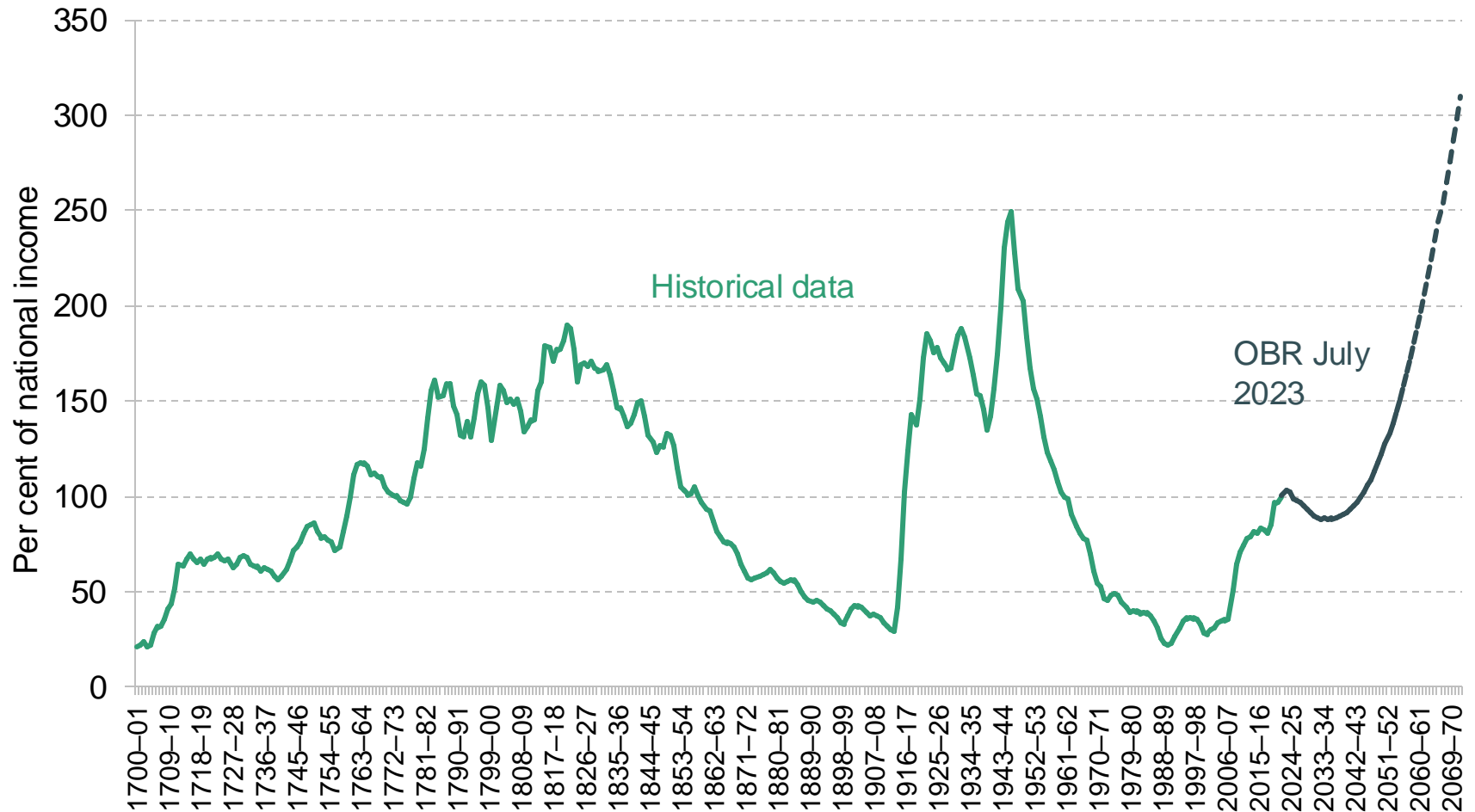
Conclusions

- **Major parties not saying how they would address the big public finances challenges of the next five years and beyond**
- **Difference between Conservative and Labour offers small relative to the changes since 2019 and the uncertainty ahead**
- **Good policymaking can boost growth, but not quickly**
- **Could get lucky – but what if we get unlucky?**

The March 2024 Budget baseline

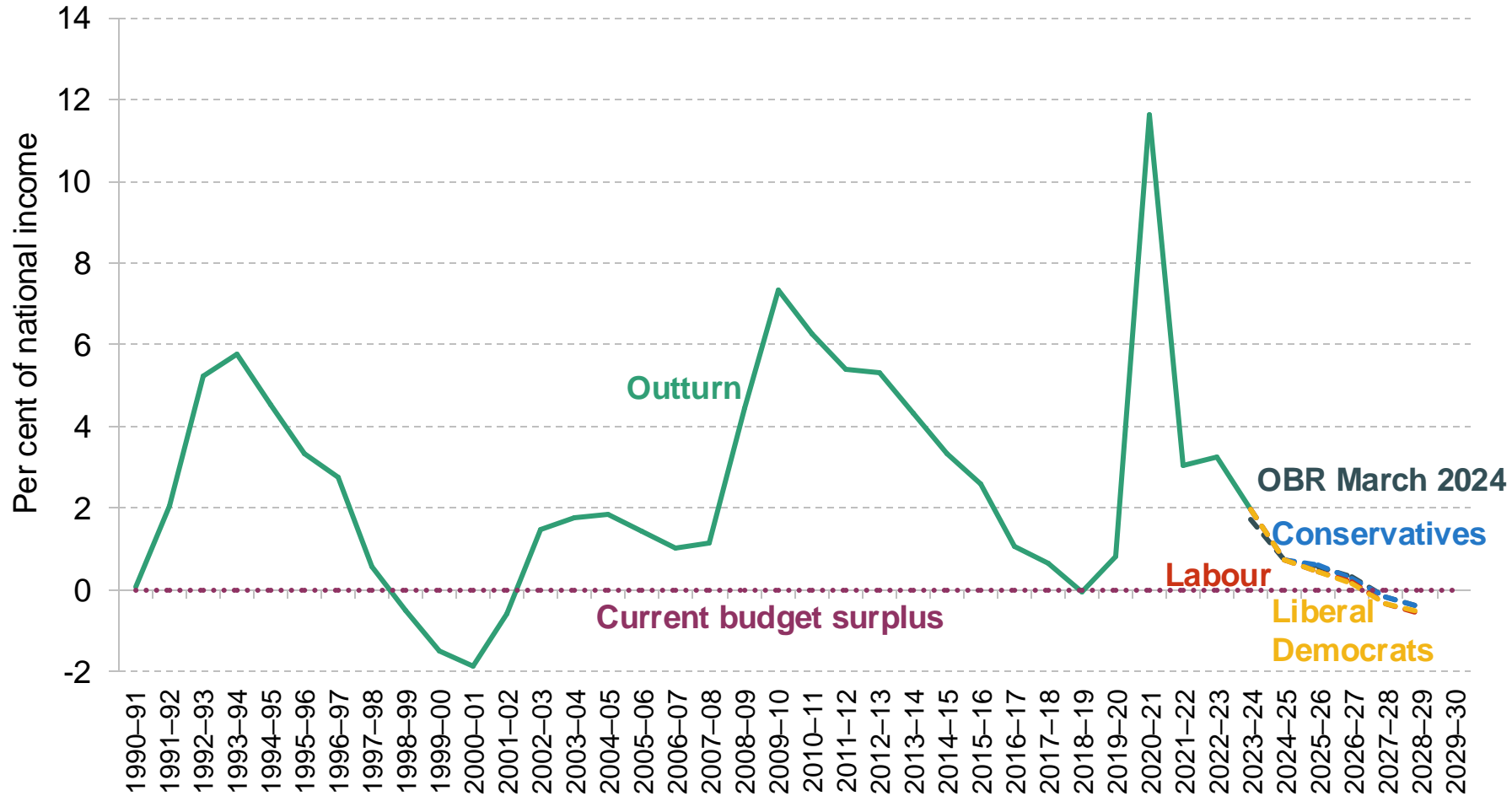
- **Taxes continuing to rise as a share of national income**
 - freezes to personal tax thresholds to March 2028 raising another £10 billion in 2027–28
- **Day-to-day spending to rise by only 1% a year in real terms over 4 years from April 2025**
 - implies cuts of £10 to £20 billion for unprotected public services
- **Investment spending frozen in cash terms from April 2025**
 - top up of £18 billion in 2028–29 would be required to avoid real cut
- **Borrowing to fall to low levels**
 - primary surplus from 2026–27
 - current budget surplus from 2027–28
- **Debt rising until March 2028, then edging down by March 2029**

Public sector net debt



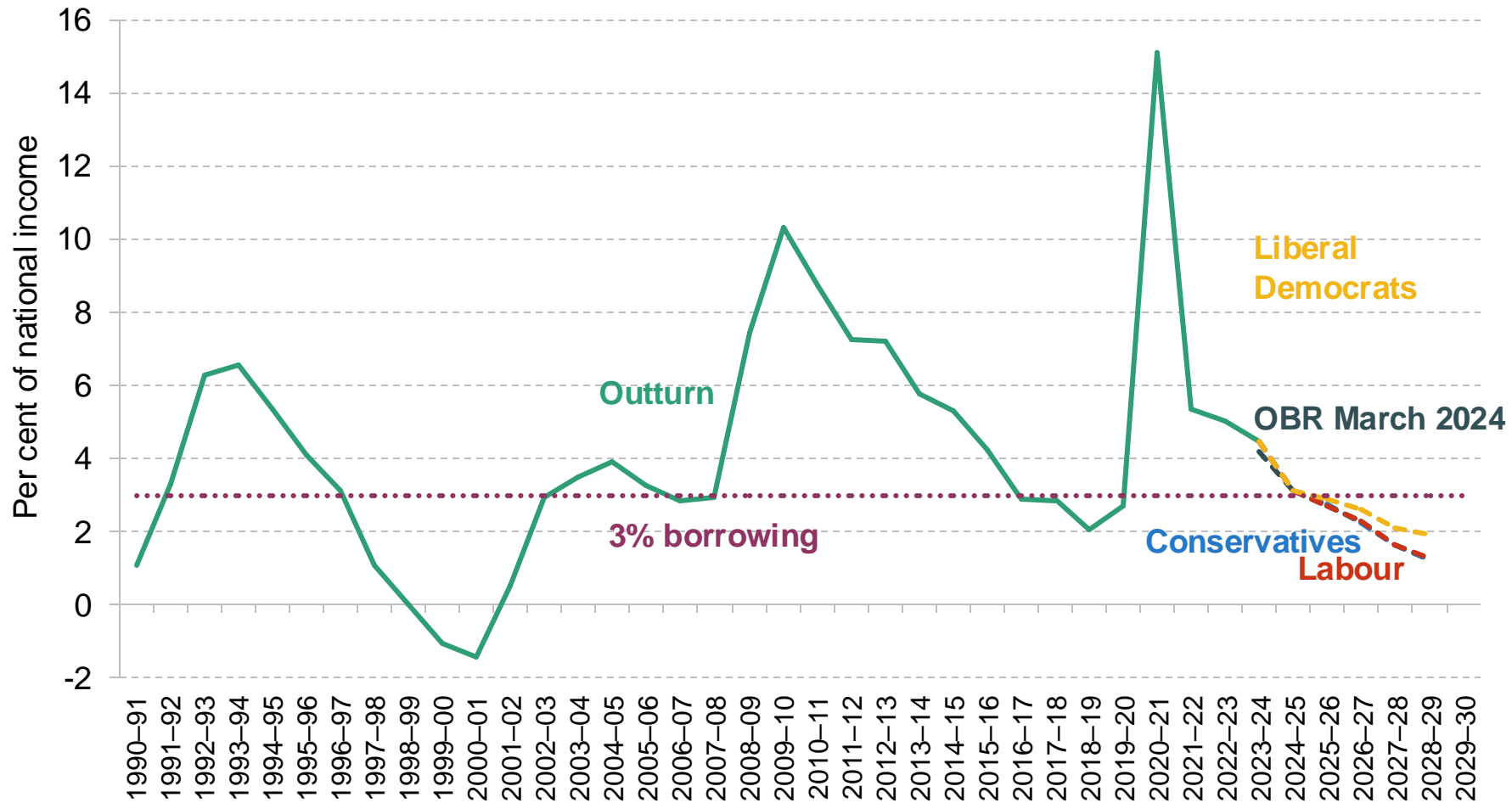
Source: OBR historical finances database; Fiscal Risks & Sustainability (July 2023).
 Note: historical data and long-run projections do not exclude the Bank of England.

Current budget



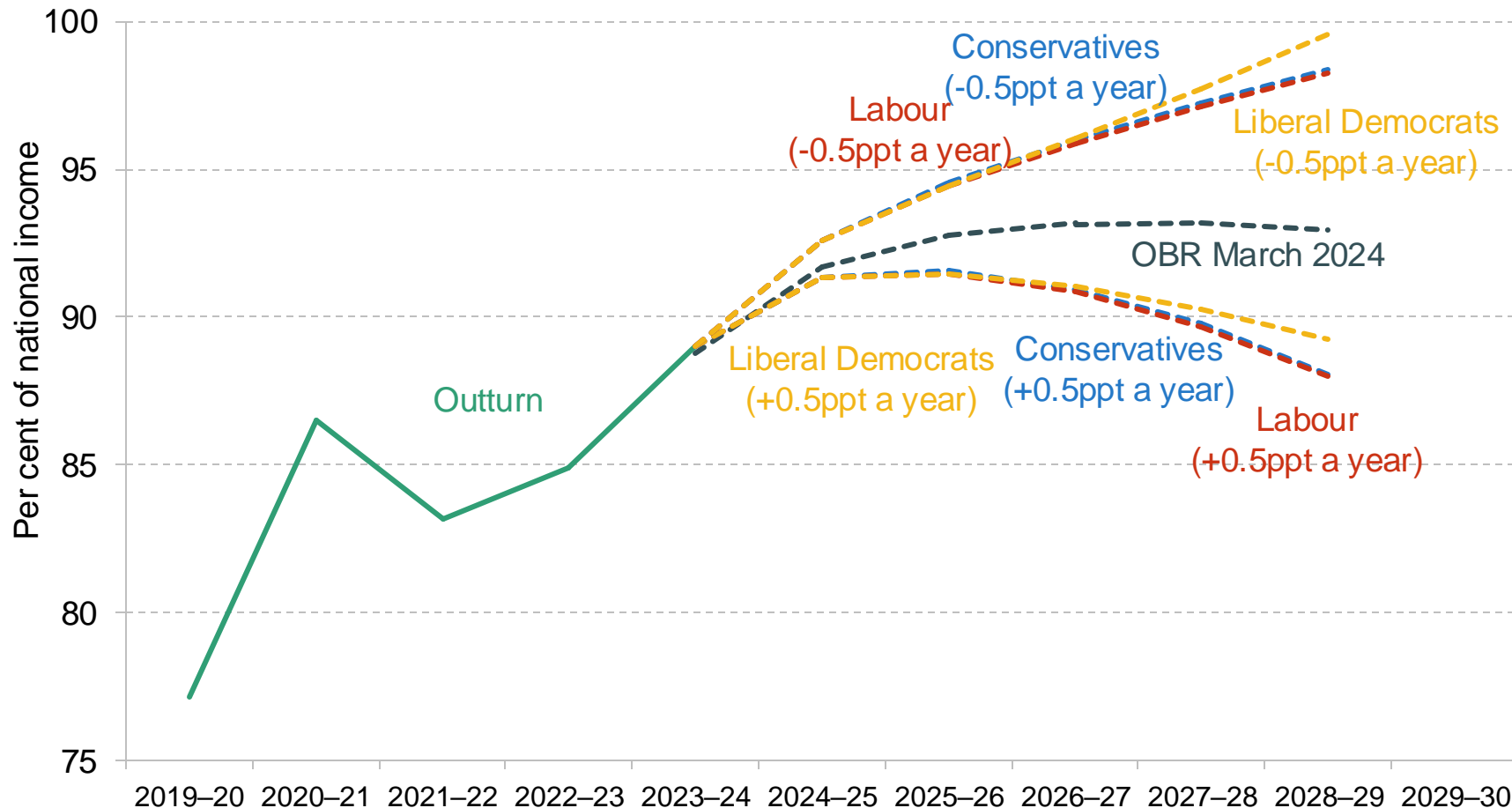
Source: Economic & Fiscal Outlook (March 2024) and authors' calculations based on parties' manifestos.

Public sector net borrowing



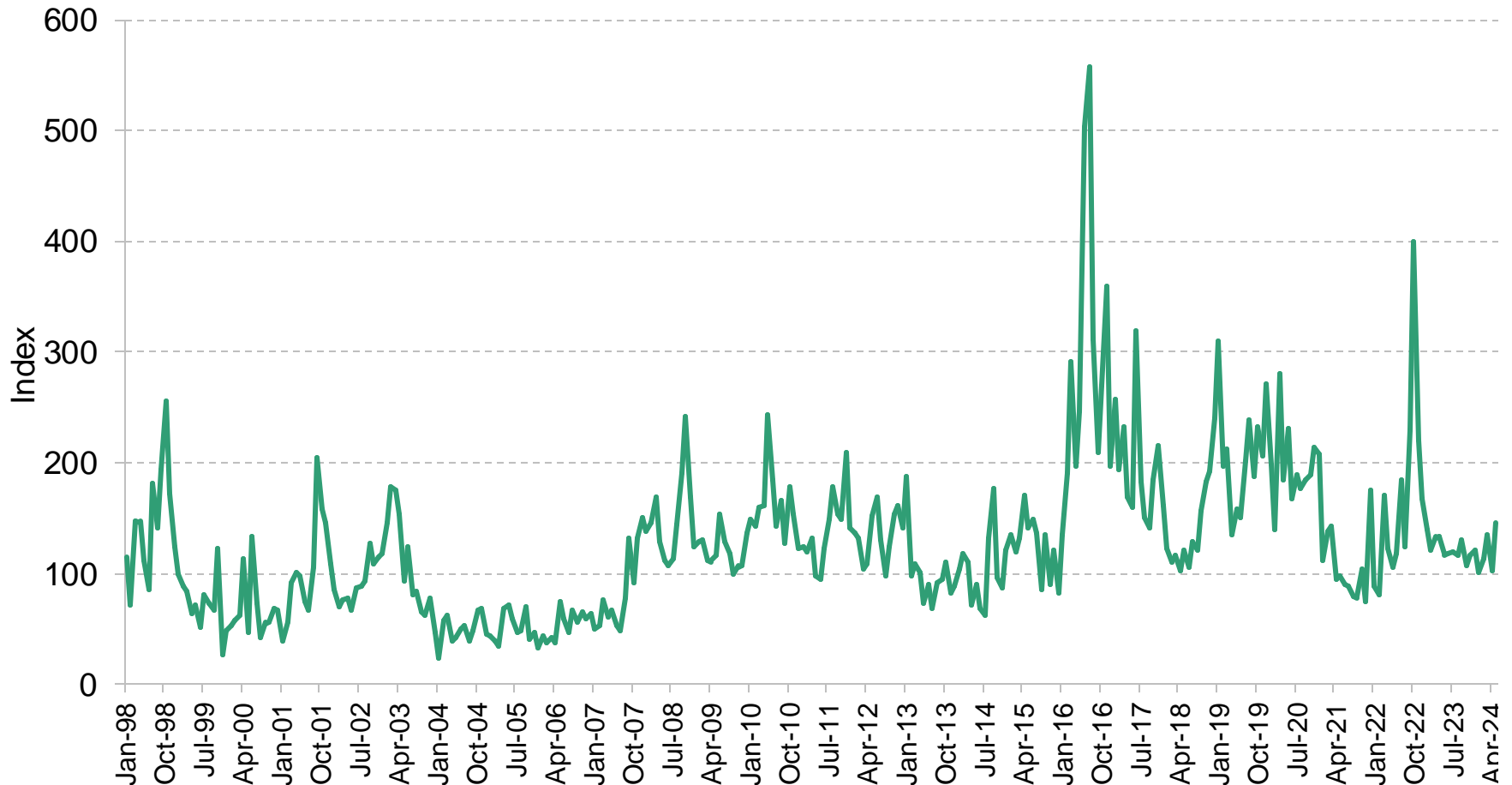
Source: Economic & Fiscal Outlook (March 2024) and authors' calculations based on parties' manifestos.

Growth and debt



Source: Economic & Fiscal Outlook (March 2024) and authors' calculations based on parties' manifestos.
 Note: Net debt excluding the Bank of England shown.

Policy uncertainty index



Source: 'Measuring Economic Policy Uncertainty' by Scott Baker, Nicholas Bloom and Steven J. Davis at www.PolicyUncertainty.com.