# The economic battle lines of the general election

## Analysing the Conservative and Labour party manifestos

**14 June 2024**

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The manifestos are out; the serious wonk business can begin. If you haven't had a chance to digest the fine detail of the parties' manifestos, you're in luck. We had a go for you. This spotlight parcels up the main takeaways. For reasons of length, we're focusing on the main two parties, but obviously other manifestos are available.

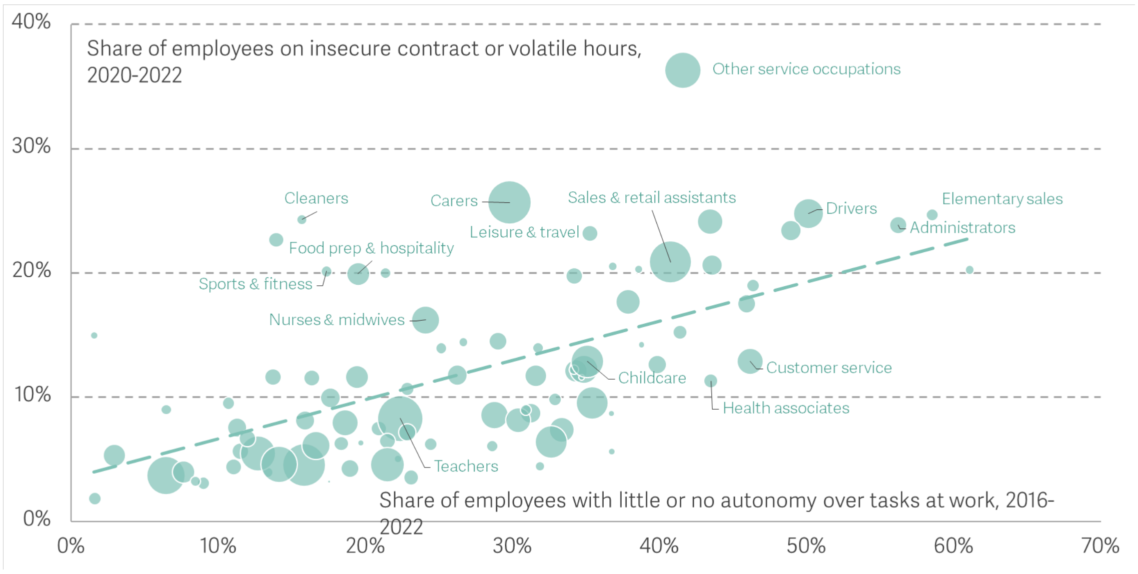
### Labour's terrain – the workplace

Labour want you to notice that they're all about change. Their route to change doesn't lie in big, bold tax or spend pledges, but in lots and lots of reform – to the NHS, to our energy sector, and to our planning system, to name a few. But the reforms that stick out for me are a package of measures of employment rights and new labour market institutions that would amount to the biggest shake-up of the workplace in a generation.

The last big shake-up was back in 1997 was with the introduction of the National Minimum Wage, overseen by the Low Pay Commission. The minimum wage has been hugely successful in bringing hourly low pay down to its lowest level in over four decades, especially after it was ramped up and rebranded the National Living Wage by then Chancellor George Osborne. But tackling the wider problems affecting low-paid work is far from job done, as the chart below shows. Yes, hourly pay rates are up, but levels of work insecurity and volatility are still too high in many sectors, as is a lack of autonomy in jobs. It's these negative aspects of work that discourage people from doing jobs, or taking on more hours, as well as making working life fairly miserable for some.

Figure 1 **There's more to good work than pay**

Proportion of employees with no autonomy over tasks at work compared and on an insecure contract or where hours and pay vary, by occupation: UK

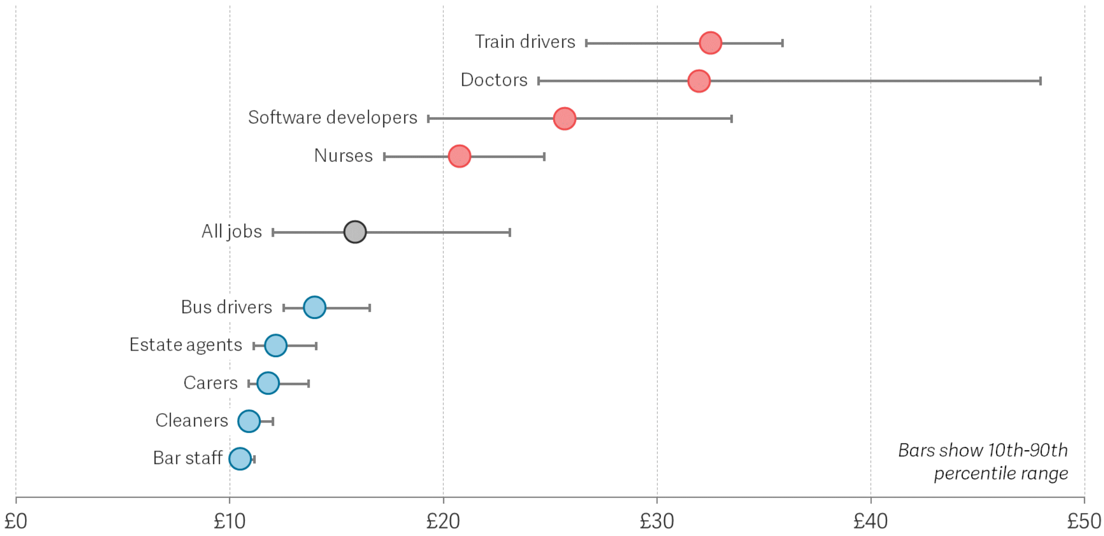



Notes: Each circle represents one occupation, measured at the 3-digit SOC level. Size of circle represents average number of workers in the occupation in 2020-22. Includes employees only. Autonomy questions in Understanding Society are only asked every other wave. So, these are the latest available three-years of pooled data in each survey.
Source: UK Household Longitudinal Study (Understanding Society; UK Skills & Employment Survey; ONS, Labour Force Survey).

One of the most eye-catching proposals was for a Fair Pay Agreement in social care. The manifesto details were light, but if you want an idea of what we'd like this to look like, then you can check out our proposals here.

Why start with social care? Because it's a sector in crisis – demand for care is only going to grow as Britain ages, and yet the sector is already beset by chronic shortages, with a vacancy rate of almost 10 per cent. Care workers love their jobs, as our research shows, but they're paying a price for that loyalty – working in one of the lowest paid occupations in Britain, as the chart below shows.

Figure 2 **Raising standards in social care could help lift pay for care workers**
Median gross hourly pay, by occupation: UK, 2023




Notes: Occupations defined according to SOC 2020 codes as follows. Train drivers 8231, Doctors 221, Software developers 2134, Nurses 223, Bus drivers 8212, Estate agents 3555, Carers 6135, Cleaners 922, Bar staff 9265.
Source: ONS, Annual Survey of Hours and Earnings

There are strong moral and practical reasons for boosting care workers' pay and conditions, and to drive up the quality of work more broadly. Labour is committed to announcing its plans in its first 100 days, but we shouldn't rush implementation – a big bang approach could be counter-productive. A key reason why the minimum wage has been so successful was its cautious introduction, and careful stewardship by the Low Pay Commission. These are the lessons an incoming Labour government should heed as it seeks to give workers welcome new rights and builds new labour market institutions.

## The Conservatives' terrain - tax

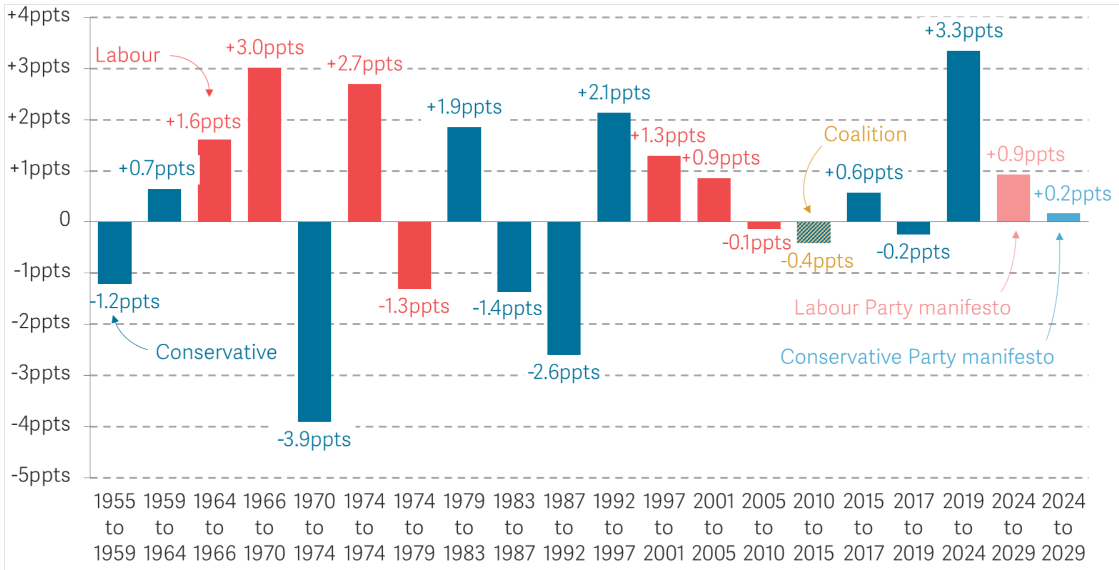
The Conservative Party's pitch is that they are going to cut taxes in the next parliament, and that Labour aren't. Central to this is a trebling down of 2p cuts to employee National Insurance – taking the main rate down from 13.25 per cent in September 2022 – before the Health and Social Levy was cancelled by Liz Truss – to just 6 per cent by the middle of the next parliament. Even more striking was the pledge to completely abolish NI for the self-employed.

There are clear differences between the parties' tax plans. But taxes would still go up in the next parliament under these Conservative plans – the £17 billion of tax cuts in the manifesto are not enough to offset the Jeremy Hunt legacy of already-announced £23 billion of post-election tax rises. If we take their plans at face value (and as is explained below, they are dependent on making some extremely difficult welfare cuts), we're now talking around £6 billion of tax rises under the Conservatives, and £31 billion under Labour by 2028-29 (£8.6 billion of their own, and the £23 billion from Jeremy Hunt).

Big numbers? Well, not really. The forecast rise in the tax-to-GDP ratio implied by Labour's plans – equivalent to around £1,000 a year per household (compared to around £200 for the

Conservatives) – would, at 0.9 percentage points, be similar in scale to the 2001-2005 parliament, which represents only just over a quarter of the far larger 3.6 percentage point rise that happened in the last parliament (equivalent to £3,600 a year per household).

Figure 3 **Both manifestos imply plans that will increase the tax to GDP ratio**
Percentage point change in tax to GDP ratio by parliament: UK

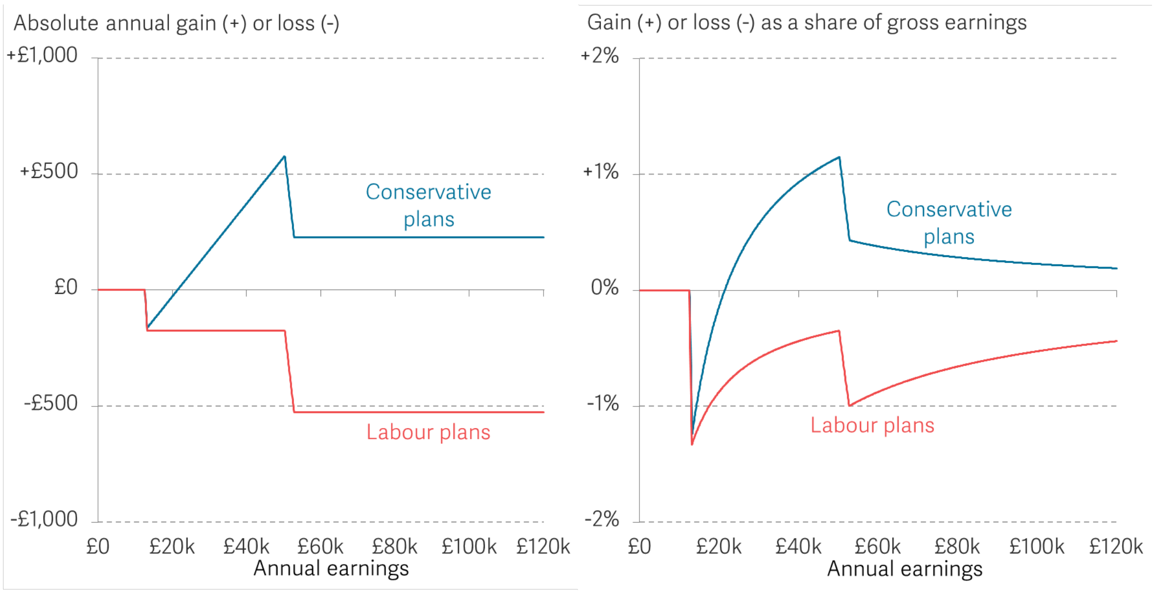



Notes: Includes OBR projections. Dates are financial years e.g. final data point is 2028-29.
Source: OBR, Economic and Fiscal Outlook, March 2024; OBR, Historical public finances database, The Labour Party, Manifesto 2024 .

The Conservatives' focus on employee NI is certainly better than some of the alternatives being mooted – Britain needs to be shifting the tax burden away from earnings. As the chart below shows, employees earning over £21,400 would see their personal tax bills fall under the Conservatives' plans, despite the £9 billion of personal tax threshold freezes that are taking effect over the next parliament. So far, all Labour have committed to is the threshold freezes, meaning small rises in tax bills.

Figure 4 **personal taxes for an employee would fall slightly under Conservative plans, and rise slightly under Labour plans**

Impact on employees of Income Tax and employee National Insurance changes announced in the Labour or Conservative manifestos, or taking effect from 2025-26 to 2027-28: UK excluding Scotland

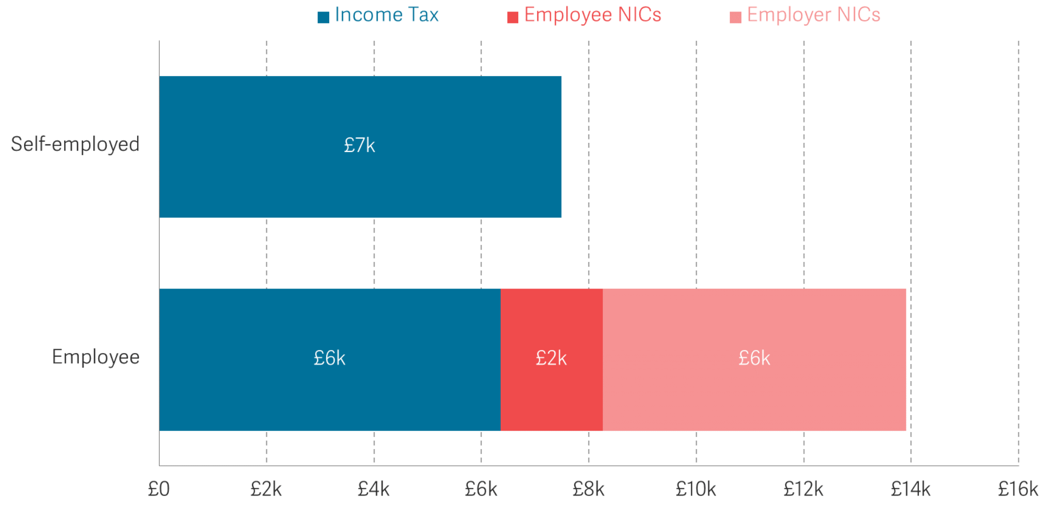



Notes: Analysis does not include the impact of employer National Insurance policies or Universal Credit means-testing. Labour tax plans includes the freezes to Income Tax and National Insurance thresholds in 2025-26, 2026-27 and 2027-28. Conservative tax plans includes the 2p cut to NICs rates for employees announced in the Conservative manifesto and the freezes to Income Tax and National Insurance thresholds in 2025-26, 2026-27 and 2027-28.
Source: RF analysis.

But a word of caution on these tax cuts. The funding that lies behind them is far from rock solid. Saving £12 billion a year from disability benefits by the end of next parliament will be extremely challenging to deliver: the introduction of PIP back in 2013 ended up saving just 7 per cent of the sum that was originally expected to be saved by the end of the parliament. And HMRC's task of cutting avoidance and evasion by £6 billion would be made a lot harder by the proposed abolition of NI for the self-employed. As the chart below shows, this policy would lead to a £6,400 tax gap between an employee and self-employed worker on £50,000 of market income. Will it encourage entrepreneurship? Not sure. Might it encourage employers to push the employee – self-employed boundary a bit further to minimize tax bills? I fear it could.

Figure 5 **The abolition of self-employed NICs would increase the tax gap with employees**

Tax paid on £50,000 of market income: 2024-25




Source: RF analysis.

## The uphill battle – hitting the fiscal rules

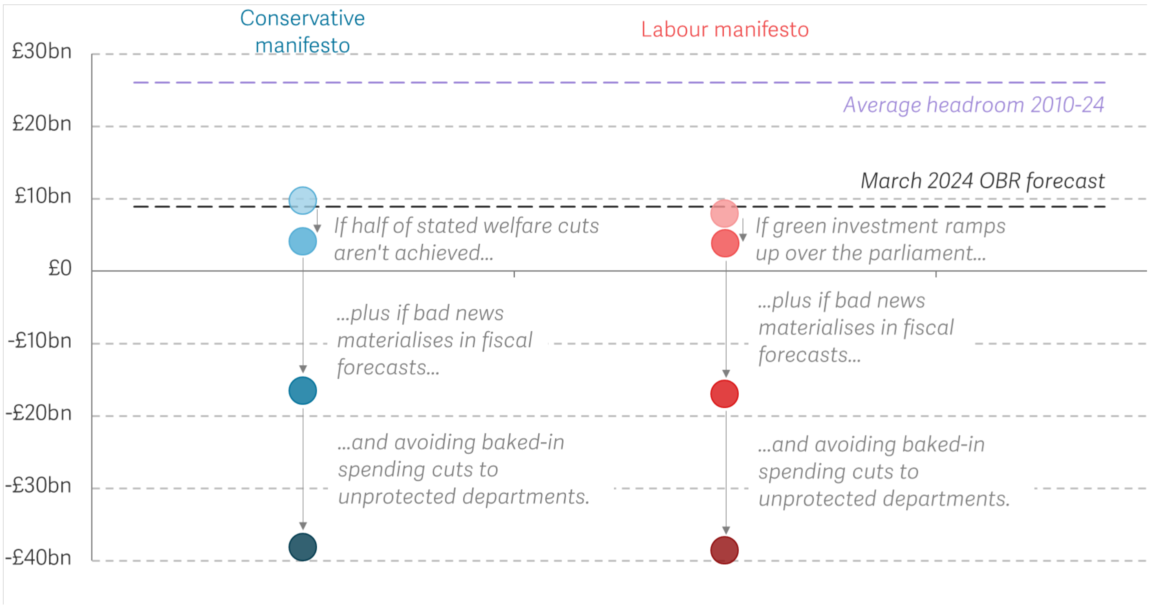
The two main parties are taking slightly different approaches to tax and spend – with the Conservatives aiming to do less of both, compared to their plans in March, and Labour aiming for a little bit more. But the gap between the two parties really is relatively small, and – if you believe all their costings – they both end up in the same place, meeting the fiscal rule of getting debt falling by the fifth of the year of the forecast by – technical term alert – a gnat's wing.

Neither of the manifestos have much to say about how they would deliver the current tax and spending plans, announced in the last parliament, and which both parties are implicitly signed up to. No party has said what these overall spending totals mean for different departments, but under plausible assumptions about the parties' plans for defence, health and education, then they could mean at least £18 billion of cuts to unprotected departments (including Justice, the Home Office and local government) – a bigger sum than the changes the two parties focus on in their respective manifestos. The existing fiscal forecast also banks on squeezing working-age benefits, through the continued roll-out of the two-child limit on support and freezes to Local Housing Allowances. These sorts of cuts will also be extremely challenging to deliver given the current state of public services and levels of hardship around the country.

On top of this, it wouldn't take much for the plans to be torn up anyway by an economic downgrade by the Office for Budget Responsibility (OBR) at the next fiscal event. Even a modest downgrade to the OBR's perky productivity forecast would add £17 billion a year to borrowing, and smash through the thin buffers the main parties plan to leave themselves, as the chart below shows.

Figure 6 **A modest downgrade to the OBR productivity forecast would leave both parties plans falling foul of their fiscal rules on current plans.**

Estimated headroom under current fiscal rules given the main parties' manifestos and selected fiscal risks




Notes: Estimates use the OBR's March 2024 forecast as a baseline. For the Conservatives, we assume that half of welfare savings in each year of the forecast are not realised, and that the shortfall is covered by extra borrowing. For Labour, we assume that green investment starts at £0.9bn in 2025-26 and doubles each year to average £3.5bn per year between 2025-26 and 2028-29. The additional risks to headroom are detailed in C McCurdy, C Pacitti & J Smith, Debt dramas: Putting the public finances in context ahead of general election 2024, Resolution Foundation, June 2024.
RF analysis of OBR, Economic and Fiscal Outlook, March 2024; The Conservative and Unionist Party, Manifesto 2024; Labour Party, Manifesto 2024.

The question we should really be asking is not whether the parties' new ideas are funded, but whether their overall plans for public spending and taxes really pass the plausibility test. Both claim to have a manifesto that is fully costed, and that would meet the debt rule. But this is true only if you believe the assumptions about made about cutting tax avoidance – albeit, for Labour, backed by more officials working at HMRC – and, for the Conservatives, if you accept they can deliver large cuts to welfare, civil servants and quangos. Both parties too, promise action in many spheres of public policy that are either cost-free, can be delivered within existing spending limits, or whose cost can't be determined until there has been a thorough review.

## Where the battle should be won – a plan for growth

Of course, stronger economic growth – either through a dose of good luck, or as a result of the policies set out in the manifestos – would greatly ease a lot of these tax and spend challenges. That could happen (though we shouldn't be relying on it). Growth isn't just the way of solving unpleasant fiscal arithmetic, it's also the route to higher living standards too.

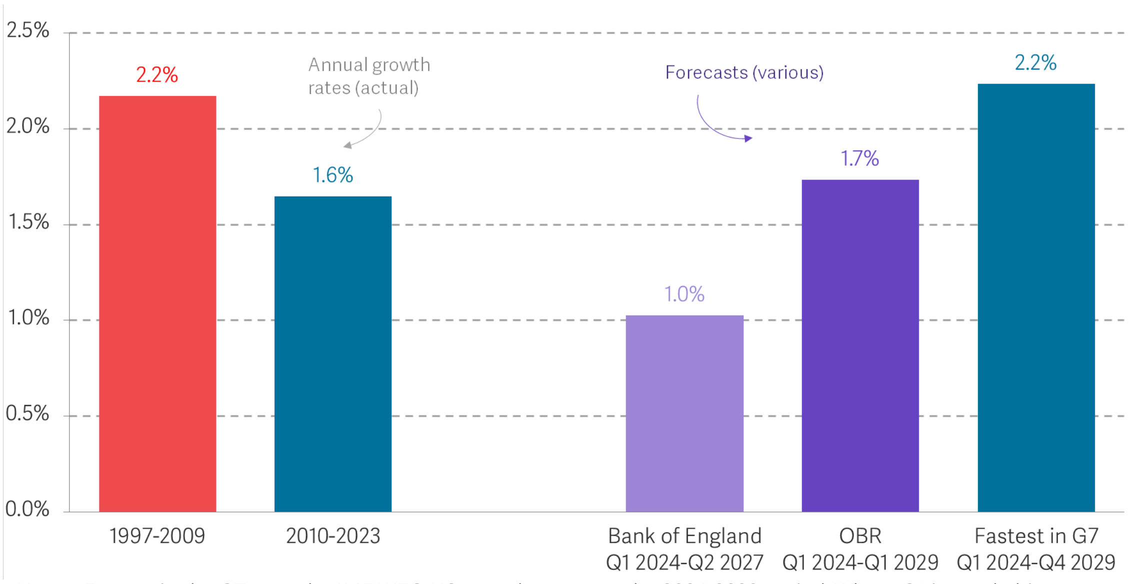
Economic growth is the policy challenge we face – it's why [we wrote a book] about how to get more of it. To their credit, both main say they accept this challenge. But the manifestos are their chance to set out a new economic strategy in clear, crisp terms to sell to the public – do they?

Both love a good G7 comparison. The Conservatives won the 'global economic race' among G7 economies in the first quarter of 2024 (a race invented by George Osborne in the mid-2010s when the UK was, at least compared to Europe-in-the-doldrums, flying high). But ending stagnation is a marathon not a sprint – we're near the [back of the pack] when it comes to our longer-term relative economic performance since 2010 on measures like productivity, which matter most for living standards.

Labour aspire to the strongest growth in the G7 over the next parliament. That's a lofty ambition – requiring growth rates last seen during the heady days of new Labour, as the chart below shows.

Figure 7 **Labour's ambition for the strongest growth in the G7 is a stretch goal by historical standards**

Annual real GDP growth rate, outturn and forecasts: UK




Notes: Fastest in the G7 uses the IMF WEO US growth rate over the 2024-2029 period. Where Q1 is used, this represents the full year to Q1.
Source: RF analysis of ONS; Bank of England; OBR Economic and Fiscal Outlook March 2023; IMF WEO.

Do their manifestos add up to a plan that will actually end stagnation? Successful delivery of their shared aspiration on key planks of economic reform –on planning, and bringing in private sector investment – would certainly help. But a key gap is the step-change in public investment that we need. Labour plans to boost investment by almost £5 billion a year by 2028-29 – largely through its Green Prosperity Plan. While certainly helpful this would merely undo one-fifth of the already announced investment cuts due to take place over the next parliament. In Ending Stagnation, we concluded that Britain needed to stop living off its past, and instead invest in its future. I don't think the parties are quite there yet – and we've decades of lost ground to catch-up when it comes to improving the public realm.

Figure 8 **Neither party has announced plans for the step-change in public investment that is sorely needed**

Public sector net investment (PSNI) as a proportion of GDP: UK


Source: RF analysis of OBR, Economic & Fiscal Outlook, various, Public Sector Finances Databank; Labour, Labour Party Manifesto 2024.

## Conclusion – why the economic battleground matters

Economics isn't always at the heart of elections – it wasn't last time around. But it is now, and for good reason. We need to turn the page on stagnation. GDP per capita has grown by just 4.3 per cent in total over the past 16 years – it rose ten times as much in the 16 years prior to 2008. It is this economic failure that has delivered rising taxes, cuts to key public services and living standards that have stagnated for far too long. Turn this record around, and many of these really tough economic and fiscal challenges we've outlined above will be far easier to resolve. Tackling this, and bringing about shared prosperity for UK households, should be the first, second and third priority for whoever finds themselves in government in three weeks.