PRESS RELEASE
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AUSTERITY: Post-election tax rises in prospect to meet deficit reduction targets
New #ElectionEconomics policy briefing from the Centre for Economic Performance

It is likely that there will be tax increases after the election whoever wins, concludes a new report from the Centre for Economic Performance (CEP), the latest in a series of background briefings on the policy issues in the May 2015 UK general election.

Professor John Van Reenen, CEP’s director and author of the report, notes that every general election since 1992 has been followed by net tax rises of more than £5 billion. Such an outcome seems all the more probable with each of the three main parties’ policy proposals on ‘austerity’ promising to balance the cyclically adjusted current budget by 2017-18.

The CEP Election Analysis surveys the evidence on the effects of ‘fiscal consolidation’ (cutting public spending and raising taxes) on economic growth, the austerity record of the coalition government, and the parties’ fiscal plans after 2015. Among the findings:

- At the end of 2014, UK GDP per person was about the same as it was at the end of 2006. Britons were about 16% poorer than would be expected from pre-crisis trends (from 1970 to 2008). Some of this poor performance was due to the eurozone crisis, high commodity prices and the dislocations caused by the global financial crisis.

- The austerity programme of the coalition government knocked at least 1% per year off growth in the first two years of the 2010-15 Parliament. In retrospect, the acceleration of austerity looks like a mistake and the slower pace of austerity in 2012-13 and thereafter was welcome.

- The plans in the coalition government’s 2014 Autumn Statement are to accelerate the cuts in spending on public services over the next five years, until they reach around 35% of GDP in 2019-20, a similar proportion to 1948. Unprotected departments – those outside the NHS, schools and overseas aid – face cuts of over a quarter, on top of cuts of a fifth in the previous five years.

- The other parties also plan big reductions in spending on public services although at a slower pace and tempered by tax rises. In reality, it is likely that whoever wins the next election will increase taxes more than has been advertised – just as has happened after every election since 1992.

- A major difference between the fiscal targets of the parties is over public investment. The Conservatives’ ambition of creating an overall budget surplus by 2019-20 would leave much less room for public investment - which is worrying as UK public investment is lower than in many comparable countries.
The fiscal rules of Labour and the Liberal Democrats would allow them to bring down public borrowing more slowly so long as it is used for investment. Their plans would result in slightly higher growth and lower unemployment, but also slightly higher debt than those of the Conservatives.

Professor John Van Reenen comments:

‘All parties should be more honest about the size and shape of tax rises and spending cuts after the election.

‘A quarter of all income tax revenue comes from just 0.5% of the adult population. A one percentage point rise in all rates of income tax would be progressive and raise £5.5 billion.’

ENDS

Notes for editors:

‘Austerity’ by John Van Reenen is the latest in a new CEP #ElectionEconomics series. See http://cep.lse.ac.uk/election2015/.

Objective, brief and non-technical, CEP Election Analysis is a series of background briefings on the policy issues in the May 2015 UK General Election

This series discusses the research evidence on some of the UK’s key policy battlegrounds, including immigration, austerity, living standards, business, Europe, health, education, crime, inequality, regional policy, housing and planning, climate change and energy, infrastructure and gender.

These analyses are provided by some of our expert researchers and draw on some of our past and current research.

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