PRESS RELEASE
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#ElectionEconomics: The research evidence on key issues for voters in the 2015 UK General Election – final report from the Centre for Economic Performance

With a week to go to what looks like being the closest election in living memory, a new report from the Centre for Economic Performance (CEP) at the London School of Economics outlines the research evidence underlying some of the major choices facing the electorate: over the speed of austerity and its balance between tax and public spending; over whether the UK should remain a member of the European Union; over public services reform; and over the levels of taxation on the wealthier.

The report also poses key questions that voters should be asking the leaders and local candidates of the political parties. How would they raise the poor level of UK productivity? How can real wage growth be restored? How would they deliver the increases in tax revenue from tackling avoidance? How can real efficiency improvements be achieved in schools, hospitals and the police? And how can the UK start building more houses?

Among the findings:

**Economic performance:** In a historical context, the UK’s recent economic performance has been poor. Compared with the trend over the last half century, GDP per head is 17% below where we would have expected. Not only was there a big fall in GDP in the 2008-09 global financial crisis, the recovery has been very anaemic – the worst for a century.

**Austerity:** Whichever party or parties are in government after the election, there will be further austerity. The main differences between the parties are first, the target size of the budget deficit by the end of the next Parliament, and second, the proposed mix of tax and spending policies in the way that the deficit will be reduced.

**Taxes:** If the parties are serious about ‘balancing the books’ in the next Parliament, they will almost certainly need to increase taxes by more than they have said. Indeed, since unannounced tax rises have increased after each of the last five elections, it seems very likely that this will happen again.

**The UK’s place in the world:** The political rows over membership of the European Union and immigration show the UK’s uneasiness with its place in the world. Yet the evidence is that these fears are misplaced and policies to distance ourselves by leaving the EU or heavily restricting immigration will end up being very expensive.

**Productivity:** No party stands out in having a coherent plan over how to reignite long-run growth. Yet the basic problems are pretty clear: there has been a failure to invest adequately for the long term, especially in infrastructure – energy, transport and housing – and innovation.

**Housing:** House prices have grown faster in the UK than in all other OECD countries over the past 40 years, leading to an ‘affordability crisis’. The cause of this has simply been the failure...
to build enough homes to keep the supply of housing level with growing demand, and the major cause of the supply constraints has been the UK’s planning system. This allows ‘Nimbies’ to employ endless ways to block new developments, especially in London and the South East.

**Innovation**: Spending on research and development (R&D) is a much lower share of output than in other major countries and this has been made worse by real cuts in the science budget. Innovation is also held back by a lack of finance, especially for growing small and medium-sized businesses, which makes evident the need to get more competition into banking.

**Energy and the environment**: There is dangerously low energy capacity, leading to the risk of the lights going out, plus the pressing need to deal with climate change. This is an area of political consensus, but also one of policy failure. The UK has met its climate change targets primarily by having a poor growth record. The plethora of policies undermine each other and there is a need for coherency and simplicity.

**Health**: Labour are incensed by NHS ‘privatisation’ despite the fact that under 1% of NHS care is provided privately. The substance of the complaint appears to be more about competition between publicly run NHS trusts. Ironically, competition – greater patient choice – was introduced by Labour from the early 2000s – and there is good evidence that it worked, boosting productivity and improving the quality of patient care.

Labour’s dislike of their own NHS reforms is due to the botched 2012 Health Act, which caused huge organisational upheaval at a time of limited budgets without improving performance. Like accelerated austerity, it was a poor policy created in the first half of the Parliament, which resulted in a damage limitation exercise in the second half.

**Schools**: Radical change has happened in secondary schools with semi-autonomous academies becoming the major form of secondary provision. It is clear that the early academies in disadvantaged areas successfully raised standards, but it is unclear whether this is true of the later waves, based in more middle class areas.

**Higher education**: The main issue is whether to reduce the tuition fee cap from its current level of £9,000 to £6,000, as Labour propose. The hike in fees in 2012-13 seems to have done nothing to reduce demand for universities from low income students. Labour’s proposal would cost £2.7 billion and would be regressive, benefitting wealthier students the most.

**Policing**: Unlike health and education, where demand for services is rising, crime is an area where the demand for police services is falling. We are living in an increasingly peaceful and low crime society. The issue is whether there can continue to be very large cuts in police budgets with no uptick in crime.

**Living standards**: Median real wages fell by 8-10% from 2008. This has not happened in previous post-war recessions and it helps to explain why unemployment rose much less than expected. The earnings fall has been worst for the young: a 16% cut for 18-24 year olds. Indeed, although the tax and benefit system means that net income falls are less than gross earnings for those below the middle of the distribution, the only group whose living standards have risen since 2010 are the over 65 year olds.

**Inequality**: Inequality has been consistently increasing since the late 1970s in the UK, especially for the richest 1%. A lot of this has been driven by wage inequality, as the demand
for skill and top talent has risen relative to supply. But income from capital like shares and houses is becoming increasingly important. This strengthens the argument for tightening up the generosity that the tax system shows to the very wealthy.

**Top taxes:** There is no evidence that high taxes would reduce effort, but they would mean more attempts at tax avoidance, which would offset the amount of tax revenue actually raised by the Exchequer. Those who wish to raise taxes need also to reduce avoidance, something that all the parties claim they want to do though none get down to specifics over how they would do it.

CEP’s director Professor John Van Reenen comments:

‘The 2015 UK General Election is extraordinarily close and no single party is likely to win an outright majority. Given the importance of every vote, having a clear understanding of the policy issues is more important than it has been for decades.’

‘Citizens do not vote based on promised policies alone. But in an age of fragmented politics where tribal loyalties hold much less sway, having a clear view of what politicians are saying – and, as importantly, what they are not saying – about the key issues of the day is vital.’

‘With this in mind, we have produced briefings on key election issues – from immigration to austerity, and from health to housing. Our aim is not to advocate the policies of any party, but to use the best research and data to inform the public of what really matters for a policy area, how it has changed and what influence the coalition government has had on it since 2010.’

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**Notes for editors:**

#ElectionEconomics: The research evidence on key issues for voters in the 2015 UK General Election’ is the final report of CEP’s #ElectionEconomics series and available to download from the Centre’s website.

The report discusses the research evidence on 15 of the UK’s key policy battlegrounds: immigration, austerity, real wages and living standards, productivity and business, Europe, the NHS, schools, tuition fees, gender gaps, urban and regional policy, top tax rates, inequality, housing and planning, crime, climate change and energy.

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

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