2024 GENERAL ELECTION BRIEF

Manifesto analysis - Economic strategy

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The background

Growth and the relentless search for it has been a key feature of the election campaign. For most parties, this is seen as the key way to square the circle of difficult fiscal circumstances. Essentially, because there is very little money available in the coffers, getting the economy growing is the way many parties see as the route to improving public services, without increasing the tax burden any more than is already forecast.

In addition, if the economy grows more quickly, then the denominator for both the debt to GDP ratio and the tax to GDP ratio is bigger: which makes everything easier.

We covered the approach to economic strategy in recent years in our brief earlier in the campaign – but what more have we learned from the manifestos and the campaign?

Overall fiscal stance

In a topic which has dominated much of the discussion, there is not much at all between the two main parties. We have heard the phrase "fiscal rules" endlessly throughout the campaign.

As a reminder, the current fiscal rules are:

- Government debt to be falling as a percentage of GDP in the final year of a five-year forecast;
- The annual budget deficit – not to exceed 3% of GDP over the same time period; and
- a welfare cap limiting the amount spent on certain benefits.

The **Conservatives** have said they will "uphold the fiscal rules". Interestingly, while the current forecasts show that the first will be met on this basis (just) and the second rule has been met with lots to spare (the current forecasts suggest it will be under 3% for most of the forecast period and between 1-2% by the fifth year of the forecast, the third rule of the welfare cap may well have been breached in the next assessment made by the OBR. However, the welfare cap as a fiscal rule has not really featured as part of the campaign - in fact, the OBR said in the 2019 Fiscal Risks Report "it is not clear that the welfare cap has any meaningful impact on spending plans and outcomes".

Labour have said they will stick to the first rule – on debt. They have recast the second one saying they will "borrow to invest". See our blog from Tuesday which shows that this isn't really very different in terms of what it means for the outlook for Government spending. The Labour party has not set out a view on the overall welfare cap as we covered on our brief on social security yesterday.

The **Lib Dems** have said they want national debt falling as a share of the economy and ensure that day-to-day spending does not exceed the amount raised in taxes, while only borrowing to invest. So similar to the Labour party, depending on how one interprets "national debt falling as a share of GDP" – presumably this also means in the fifth year of the forecast, rather than over the course of the next five years, as that would be even more stringent. Again, our blog shows this doesn't mean any more spending compared to the baseline.

The **SNP** are calling on the UK Government to scrap their fiscal rules and introduce new ones to allow greater investment. They propose three new fiscal rules:

- Public Sector Net Worth rule – recognising the value of investing in infrastructure and public sector assets, rather than just liabilities;
- Upper limit on debt servicing costs – to allow explicit consideration of the sustainability of the stock of debt;
- Three–year detailed spending plans – to support detailed planning and improve clarity for devolved administrations.

The first one of these is something which many advocate, including the Resolution Foundation and the former Chief Economist of the Bank of England, Andy Haldane.

The theoretical logic of this is clear and persuasive. Public Sector Net Worth would mean that the future returns from investments would be included in the calculations – so, if we invest lots in hospitals, schools and roads, we should reflect the fact that we will get returns from these over the next 20,30,40 years. We should treat investment spending differently, understanding that returns are multi-year and recurring as we build up the capital stock in our economy.

However, the practicalities of it make it a bit more tricky. Estimation of the returns to Public Sector Net Worth of different types of investment is a difficult area, and is likely to generate a wide range of possible numbers which are very uncertain, possibly disputable, and subject to optimism bias which can impact the returns of any long-term capital project. So, the extent to which this would be a meaningful and transparent fiscal rule is debatable.

How will growth be achieved?

Labour have reiterated their commitment, as set out in our previous brief, to a "mission driven", modern Industrial Strategy, including the establishment of an Industrial Strategy Council. They also have set out plans for a National Wealth Fund "to invest in jobs", including investment in ports, rebuilding the steel industry and accelerating the deployment of carbon capture and the manufacturing of green hydrogen. The establishment of GB Energy is also a key feature of their plan (the details of which are covered in our Energy and Climate Change brief).

A key focus from **Labour**, though, is the planning system. Without many specifics about what this may mean for local autonomy, it is a key part of their plan to deliver growth (and build many houses).

The **UK Conservatives** have little in the way of economic strategy in their manifesto, which builds on the lack of it in the last parliament. They have very much focussed on tax cuts, plus welfare reforms to encourage people back into work, which we discussed in our social security brief. One proposal which could impact on a key driver of growth is the proposal to increase public spending on R&D from £20 billion to £22 billion. It is worth saying that a metric for whether this is actually increasing R&D is whether this is increasing as a proportion of the economy, rather than in cash terms, but these details are not apparent (nor which year this commitment would be delivered by).

The **Scottish Conservatives** had a few more proposals which were in the realm of economic strategy, including the introduction of a Joint Economic Board comprised of UK and Scottish Ministers, and a Scottish Future Growth Fund to help the development of spin outs.

The **Lib Dems** propose the development of an industrial strategy that will give businesses certainty and "incentivise them to invest in new technologies to grow the economy, create good jobs and tackle the climate crisis".

The **Scottish Greens** propose that investment should be uprated by 1% of GDP (approximately £28bn annually), specifically in green industries. This includes enhanced subsidies and tax benefits for the uptake of green technologies, investment into skills and innovations "for the economy of the future" and investment into R&D into low emissions technology.

Monetary policy

The role of the Bank of England in setting Interest rates to control inflation has featured in many parties' manifestos, especially given the prominence the Bank has had in recent years and months to bring down inflation.

Labour wants to keep "a strong, independent Bank of England", and advocates that they should continue to target stable inflation of 2%. They also want to reverse the Conservative's decision to prevent the Bank of England from giving due consideration to climate change.

Lib Dems similarly want to protect the independence of the Bank of England and want to keep the inflation target of 2%. They also want to ensure that all fiscal events are accompanied by independent forecasts from the Office for Budget Responsibility.

Proposals from two parties, **Alba** and the **Scottish Greens**, seem to undermine the idea of the independence of the Bank of England, or at least significant changes to its mandate.

Alba propose targeting "reasonable interest rates" as an economic policy objective, claiming it would free up £20 billion in debt servicing costs. However, this does not acknowledge that government debt is determined by international markets, not the Central Bank directly, and the idea that the Bank could dictate the return of international lenders (especially as its independence is questioned) does not seem reasonable. Given the goal of higher rates is to reduce the money supply in the economy, any "artificially" lowered interest rates are also likely to be inflationary.

The **Scottish Greens** are also proposing that the Bank of England should lower interest rates for "green" investments. If incentivising "green" investment is the goal, monetary policy is unlikely to be an effective vehicle (vs. tax incentives through fiscal policy) and lowering the return for green investments seems like it could have the opposite effect from that which is intended.

Reform UK have put forward a proposal to free up £35 billion a year through a change in the way the Bank of England operates quantitative easing. At the moment, the Bank pays interest on reserves at the same rate regardless of what they are used for. The change Reform UK are proposing would see much of the reserves held by commercial banks (those used for QE but not to move Bank Rate) paid no interest.

This is an extremely complex area in terms of operation (Paul Tucker does a good though lengthy explainer), but it's also an important one with arguments on both sides. On the one hand, clearly this is a lot of money that could become available to the government without requiring it to raise taxes, and there is also a good argument that these reserves needn't be remunerated anyway as they are not chosen by banks as the optimal allocation of funds – they're just part of how the BoE does monetary policy. On the other hand, this could have large implications for commercial banks, reducing their profitability and potentially either causing them to be less well-capitalised or to have to increase other fees to compensate for this. The arguments are finely balanced, and it's beyond our remit to take a view, of course. In terms of how much it could raise, the Reform UK estimates seem to be too large – most other sources point to around £10 billion a year.

Labour market proposals

Labour have a lot on this in their manifesto, which has encompassed at various points through the campaign their "New Deal for Working People", which they say they want to introduce legislation on within the first 100 days. This "Deal" will include banning zero hours contracts, ending fire and rehire, introducing basic rights (like sick pay and parental leave rights) from day one of employment, and making the minimum wage account for the cost of living. These are all reserved areas, so would impact workers in Scotland.

There are also a number of proposals to reduce inactivity, some of which we covered in our social security brief (see Helping People into Work section). However, they also propose bringing Jobcentre Plus and the National Careers Service together, and to tackle the backlog of Access to Work claims (Access to Work Helps those with disabilities access support they need to access and thrive at work).

The **SNP** propose the devolution of employment rights and the minimum wage so that they can scrap zero hours contracts, ban 'fire and rehire' practices and repeal the Minimum Service Bill. They would also seek to scrap the sick pay threshold to ensure lower paid workers have access to statutory sick pay. They also call for increases in maternity leave and parental leave and pay.

The **Scottish Greens** agree that employment law should be devolved to Scotland and propose many changes including repealing anti-union laws, removing the two-year qualifying period for protection against unfair dismissal, banning zero hours contracts, and a transition to a four-day working week.

The **Lib Dems** are focussed more on young people and skills provision, calling for the replacement of the apprenticeship levy and increasing the take up of apprenticeships. They also advocate developing National Colleges as national centres of expertise for key sectors, such as renewable energy, to deliver the high-level vocational skills that businesses need. Many of these proposals (given they are in the realm of skills and lifelong learning) stray into devolved areas and so would not impact on Scotland.

Alba focus on reducing the disability employment gap (hear about some of our research on this here), and proposes creating a Disability National Support Centre to provide guidance on reasonable adjustments, accessibility products, and disability mentoring.

Reform focus on deregulation in the Labour Market and propose scrapping thousands of laws – including employment laws to make it easier to hire and fire.

Trade and the EU

The relationship with the EU, and the wider but related issues of the outlook for UK trade, have not featured heavily in the campaign, with the main parties (for different reasons) being reluctant to talk about Brexit and its impacts.

The **Conservatives** have talked about trade in terms of aspirations of trade deals with Israel, Switzerland and the US, and they have particularly highlighted that they will press for the permanent removal of tariffs on Scotch whisky with the US Government and work to achieve a significant tariff reduction in India through free trade agreement discussions. Little is discussed about relationships with the EU specifically.

Labour have committed to publish a new trade strategy, which will seek targeted trade agreements aligned with industrial strengths (presumably to complement and underpin their Industrial Strategy.

They have also said that they want to lead international discussions to modernise trade rules and agreements so they work for Britain, including through the World Trade Organisation and the Comprehensive and Progressive Agreement for Trans-Pacific Partnership.

On the EU, **Labour** want to "reset the relationship" but have been at pains to say that this will not involve membership of the single market, the customs union, or any obligations over freedom of movement. Specifically they have mentioned negotiating a veterinary agreement to prevent unnecessary border checks and help tackle the cost of food; help touring artists; and secure a mutual recognition agreement for professional qualifications to help open up markets for UK service exporters.

The **Lib Dems** say they want to "unlock British businesses' global potential, bring down trade barriers and use UK trade policy as a force for good". They propose giving parliament a greater role in setting trade policy and that human rights, labour and environmental standards and protection should be at the heart at the heart of international trade deals.

Alba, the **SNP** and the S**cottish Greens** have all focussed on an independent Scotland's relationship with the EU, with the Green and the SNP calling for Scotland to be an EU member, whereas Alba are focussing on being a member of EFTA (interestingly discussing the Windsor Framework as a model for how this could happen while maintaining an open land border with the rest of the UK.

Reform take a different approach to relations with the EU, and say they would abandon the Windsor Framework and prepare for renegotiations with the EU, although they do not mention the potential impacts of this on the island of Ireland. They also say they would scrap 6,700 EU laws retained since Brexit, and "slash red tape" to boost industry and exports.

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