

Double or quits?

ELECTION ARITHMETIC FOR BREXIT AND THE BUDGET



"Nobody reads them, everybody breaks them" – you'd be hard pressed to find anyone with anything better to say about election manifestos. But as Theresa May starts her campaign to win her own mandate from the UK electorate, her manifesto pledges with respect to both the Brexit negotiations and the public finances will be unusually important. This special general election bulletin examines the issues surrounding both sets of commitments.

Calling an election must have seemed an excellent bet to the Prime Minister, given the weakness of the official opposition, the small power base of the other parties and the Government's hefty opinion poll lead, offering the prize of a bigger majority, a new five-year mandate and the removal of a number of the current constraints. She correctly judged that the 2011 Fixed-Term Parliaments Act would prove no barrier, leading some to argue it should be repealed altogether.

But elections are always a gamble. Voters can be grumpy about unexpected demands that they turn out to vote in an election, as neatly illustrated when the protest "Not another one" by "Brenda in Bristol", the vox pop broadcast by the BBC last week, instantly went viral. Low turnout can make a mockery of opinion polls, unreliable as they are to begin with.

So this raises questions for Mrs May that go beyond Brexit to how she intends to govern: how much risk is she prepared to take to get exactly the kind of mandate she wants? Put another way, how will she trade her desire for a bigger majority in the House of Commons against her need for a mandate to do some difficult things? Or put differently again, if the point of Brexit is to regain control of "our own money, our own laws and our own borders", what does she want to use that control to do?

The manifesto – weapon or handcuffs?

The Westminster difficulties Mrs May talked about in her Downing Street statement stemmed from two "mandate" problems she wants an election to solve. One is that while the referendum gave (by a small margin), a mandate to leave the European Union, it was silent on what kind of relationship the UK was to have thereafter. This gave her backbenchers in the Commons (where her majority is small) reason to argue, and the House of Lords (where she does not have a majority at all) a justification for demanding that the outcome of the negotiations be brought back to Parliament, and indeed for intervening on other Brexit issues such as the rights of EU citizens in the UK.

Although the Lords didn't push its arguments on the Article 50 Bill a second time, it was a sign of future trouble she would like to neutralise by an election, since the Lords (usually) sticks to the convention that it does not vote against the winning party's manifesto. At the same time, without a "mandate" for her brand of Brexit, further down the track either "soft" or "hard" faction in her Commons party might start playing up too. Now they will be bound by the manifesto.

Mrs May's other mandate problem was with the rest of government policy, where she both lacked a personal election imprimatur as PM and was lumbered with another PM's manifesto, as she and her Chancellor found to their cost at Budget time. The number of no-go areas for policy change have been ratcheted up through political commitments from election to election, making the task of managing public finances, let alone financing her own pet projects, almost impossible.

Brexit May-style

Whatever her opponents say, the election will not "use up valuable negotiating time". The EU27 guidelines will not be approved until the end of the month and then they have to be turned into negotiation directives for the European Commission. In addition we have the change of leadership in France and the forthcoming German election. So despite the Brussels leaks and sabre rattling by the European Parliament, nothing important will be decided for some time. Indeed the election will give the civil service time to get on with analysing the implications of possible deals, including no deal.

But the election manifesto offers Mrs May something between an opportunity and a necessity to spell out what her objectives are, and to give some guarantees. No doubt she will continue to try to maintain negotiating freedom, but on some areas she will be pushed for specifics, both on what she will try to get in a "deal" and what she will do with post-Brexit policy-making freedom. Just for starters take the following, on many of which [Frontier bulletins](#) have already outlined the issues:

1. **Trading relationships.** The 2010 Conservative manifesto said "we say yes to the single market". The 2017 manifesto obviously won't. It will no doubt instead repeat the Prime Minister's Downing Street language about a "deep and special relationship", but she will be pressed to give more detail on what this might look like. Our [previous bulletin](#) identified an intermediate pathway to Brexit that could limit the costs to the UK, but highlighted the practical challenges of negotiating such an outcome. Business, whose challenge has been muted since the referendum, may now find its voice, although it clearly prefers to lobby behind the scenes. This is particularly true of:
2. **Financial services.** This sector accounts for hundreds of thousands of jobs (and votes). The industry will be looking for reassurance in relation to the current arrangements that give UK financial institutions (as well as many non-EEA institutions that use London as a base) a "passport" to EU markets. And restrictions on free movement, or fears of its consequences, could begin to drain the pool of talent that London relies on for its expertise in financial services and supporting professions (for more on this sector, read our bulletin [here](#)).
3. **Immigration.** The Prime Minister had the opportunity to move away from the Government's unmet "tens of thousands" net (im)migration target, but still maintains this is the right "sustainable" level. She is already under pressure to exclude students from the total, but what about health service workers? University researchers? Financial services? Agricultural workers? One option might be to define a downward path for the total (say, 10 per cent fewer per year).
4. **Agriculture.** Although farming accounts for only a small part of the economy, its influence is still strong in rural Conservative constituencies, and candidates will be pressed hard for commitments on post-Brexit policies for access to migrant labour. Moreover, as our [previous bulletin](#) noted, some UK agricultural products could be particularly hard hit by a "hard" Brexit because of the high most-favoured-nation (MFN) duties that the EU would potentially impose and a relatively high dependence on the EU as a destination for exports. And although the Single Farm Payment's days are clearly numbered, what (if anything) will follow?
5. **Fishing.** Another area with high MFN duties. Future fishing policy is also an important issue in a few constituencies, some of them marginals. Many voted heavily for Brexit, but satisfying their aspirations won't be easy.
6. **Aviation.** Uncertainty about the impact of Brexit on airlines affects workers concentrated in a few constituencies, but more fundamentally it poses real risks to the UK's connectivity to the wider world. As our bulletin on [Brexit and aviation](#) explains, leaving the EU creates challenges for air traffic rights that will need to be addressed as a priority to avoid significant disruption.
7. **Universities.** Particular concerns about free movement, research co-operation and students from the rest of the EU will need to be addressed, and may have a significant impact in university constituencies. Universities will also be concerned about the loss of a significant source of funding for research (see our bulletin on [Brexit and research funding](#)).
8. **Environmental policy.** This is just one example of where lobbyists both for and against regulation are likely, during an election campaign, to want answers beyond the "leave everything as it is for now" approach that underpins plans for the Great Repeal Bill. Expect lots of promises of "reviews" and "consultations" that may have to be hardened up during the campaign.

Promises, promises

Though this has started as a Brexit election, campaigns quickly develop a life of their own and prove hard to steer. In any case, many of the constraints Mrs May has been struggling against in policy-making are in fact home-made, and she can use the election to remove as many as she dares.

1. **Overseas aid.** David Cameron's commitment to the target of 0.7 per cent of Gross National Income (set by the UN, not the EU) is not shared by all of his former colleagues. But it is now enshrined in law, and the Prime Minister has reconfirmed it, although she is still expected to recalibrate the definition (for example to include emergency assistance delivered by the military).
2. **The "triple lock" on state pensions.** The commitment to raise pensions each year by the highest of three measures (average earnings, prices and 2.5 per cent) has proved painfully expensive, and come under attack at a time when – after housing costs – incomes in average pensioner households are estimated by the Resolution Foundation to have moved ahead of working-age housed incomes by £20 a week. However, the high propensity of pensioners to vote, the fact that the Labour leadership has committed itself to maintaining the lock, and the rise in inflation (the least likely of the three measures to be removed) may make Mrs May decide that formally abandoning the lock is much pain for relatively little gain right now.
3. **Universal pensioner benefits.** Giving even the best-off pensioners free public transport, prescriptions, winter fuel allowances and TV licences is widely criticised as a waste of scarce public money, and Mrs May may well wish to offload her predecessor's commitments on one or more of these. But reform could be administratively complex, particularly for free transport, where the expedient of making such benefits taxable fails because the value varies between individuals (as well as between areas with and without good public transport). Another "consultation"?
4. **Income "tax lock".** The Prime Minister and her Chancellor have already made it clear that they want to deal with the distortion of low national insurance rates for the self-employed and this must therefore be off the no-go list. So far she has avoided recommitting herself to maintain all the other constraints on tax-raising announced by her predecessor in the last election, with Labour's plans for big increases helping her to maintain a comparatively "low tax" profile.
5. **Vat.** Post-Brexit, the UK government will have greater freedom to set Vat rates and coverage as it wishes. This, in turn will raise campaign pressures to rule in some changes (cuts on fuel) and rule out others (coverage extensions).

On top of this short list, there will of course be all the usual election pressures for spending commitments, above all on health and social care. Her back benches will be putting pressure on her to boost defence spending. And, of course she will want to put her own stamp on her manifesto with policies such as grammar schools and commitments intended to improve the standard of living of the "just managing", such as the promised cap on standard energy tariffs. Time may constrain the amount that can be added new, but as the Treasury knows, elections rarely come cheap.

Coming from behind

The general presumption that Mrs May will have little difficulty in winning her gamble means other parties' policies are mostly being seen as a challenge to her rather than a programme for government. But although there has not been time for the usual discussions between senior opposition spokesmen and senior civil servants, departments will still have to prepare for alternative outcomes by modelling opposition policies. From what the protagonists have said, however, it does not look as if they are going to have to model as many possible coalition options as they did in 2015.

And meanwhile what the impact of the election will be on Scottish politics is very hard to call. At this stage it looks as if the Conservatives will gain seats in Scotland, while UKIP will lose votes across the board – but who gets them is not yet clear. Labour will be the big loser and the Liberal Democrats will regain seats in London and the South West. All this adds up to a sizeable working majority for Mrs May. But recent elections have taught us that we should not exclude the possibility that events might interfere with the consensus forecast. It's game on, but at the moment it looks very one-sided.



Gus O'Donnell

+44 (0)20 7031 7000

g.odonnell@frontier-economics.com