Fiscal rules and public spending

Gemma Tetlow
Institute for Fiscal Studies

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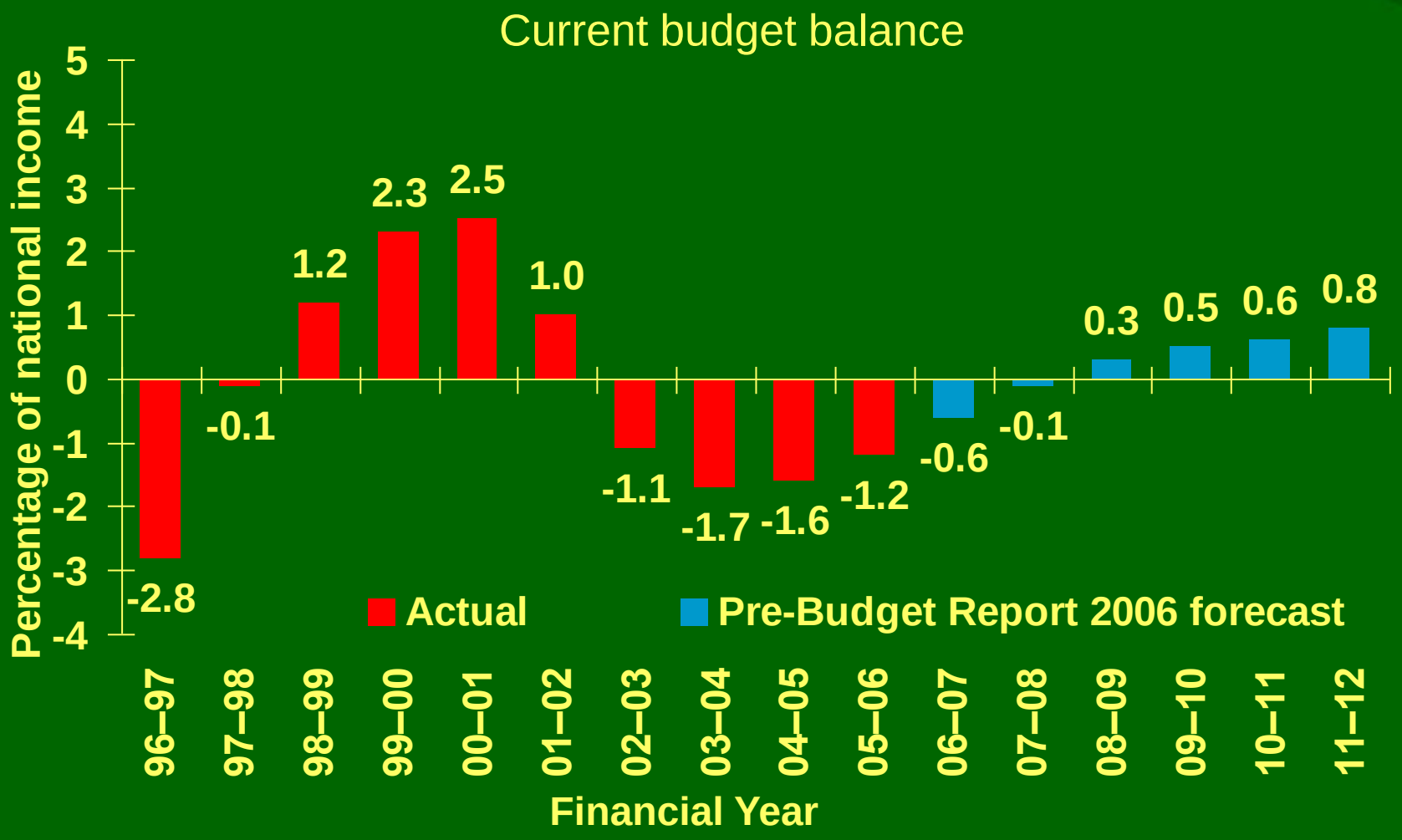
The fiscal framework

- Code for Fiscal Stability
- Fiscal rules by which performance is judged
  - Golden rule
  - Sustainable investment rule

The golden rule

- Borrow only to invest
- Current budget balance or surplus
- Judged over the economic cycle

Has Gordon Brown met the golden rule?



Source: HM Treasury

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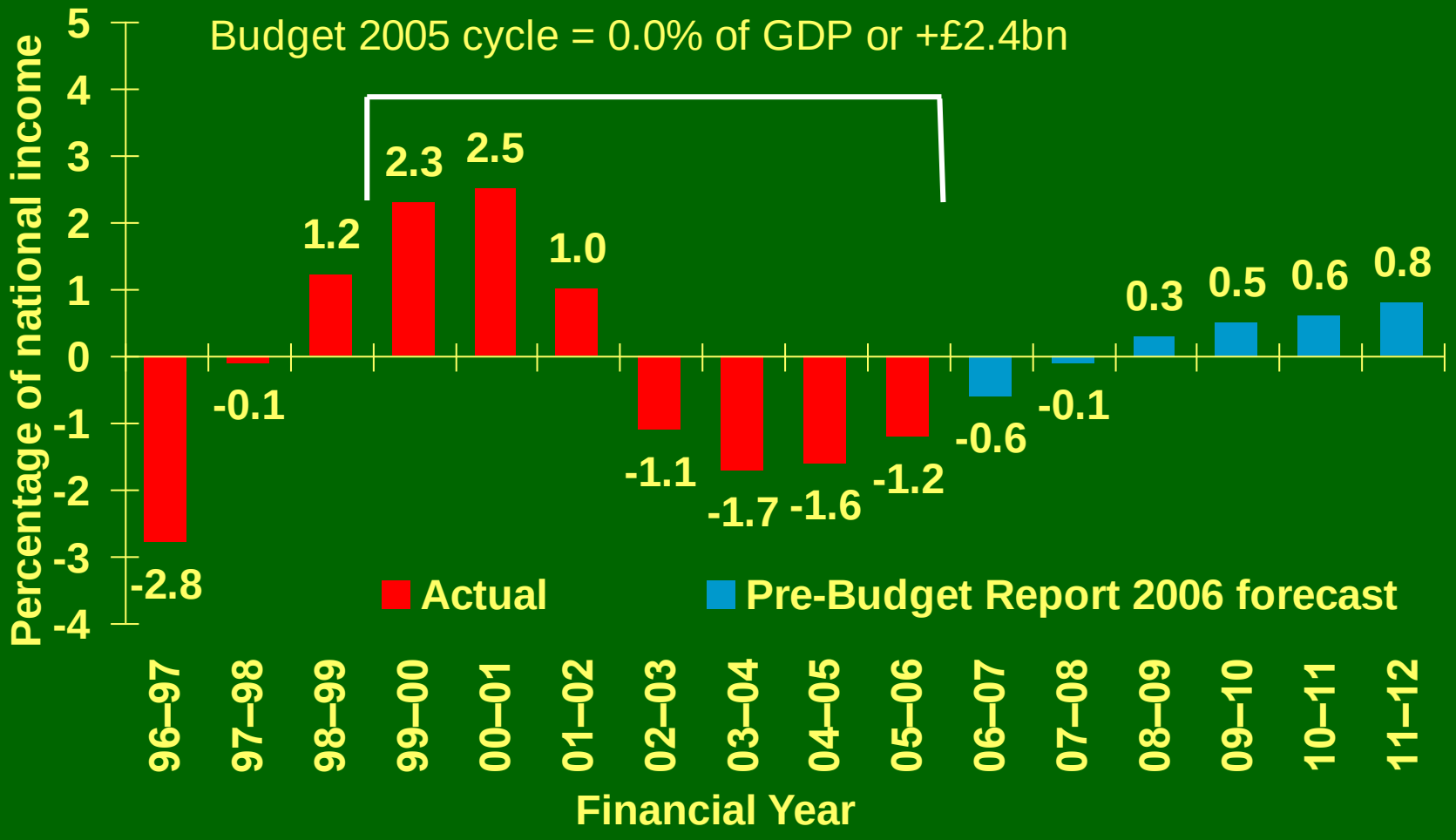

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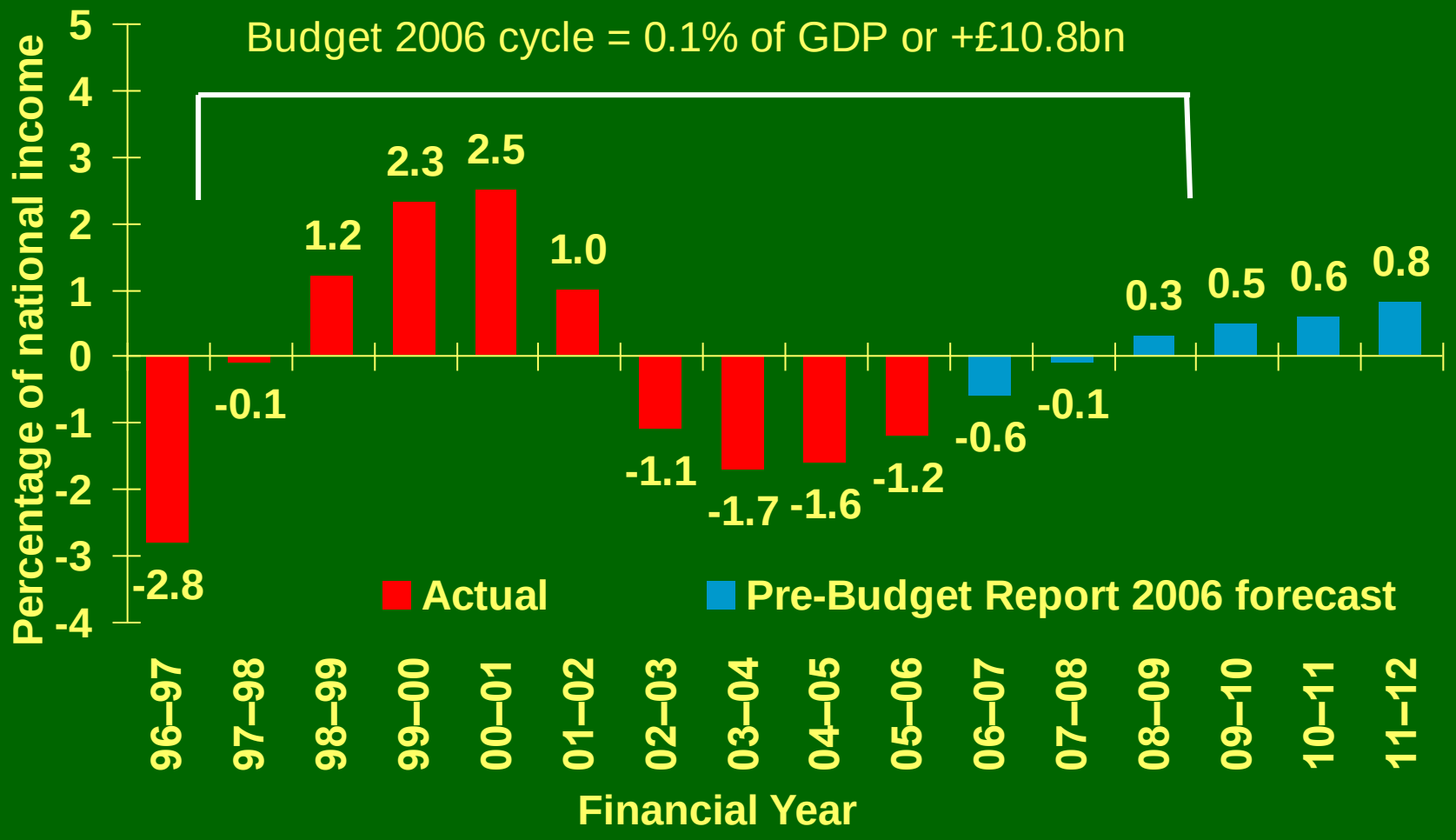

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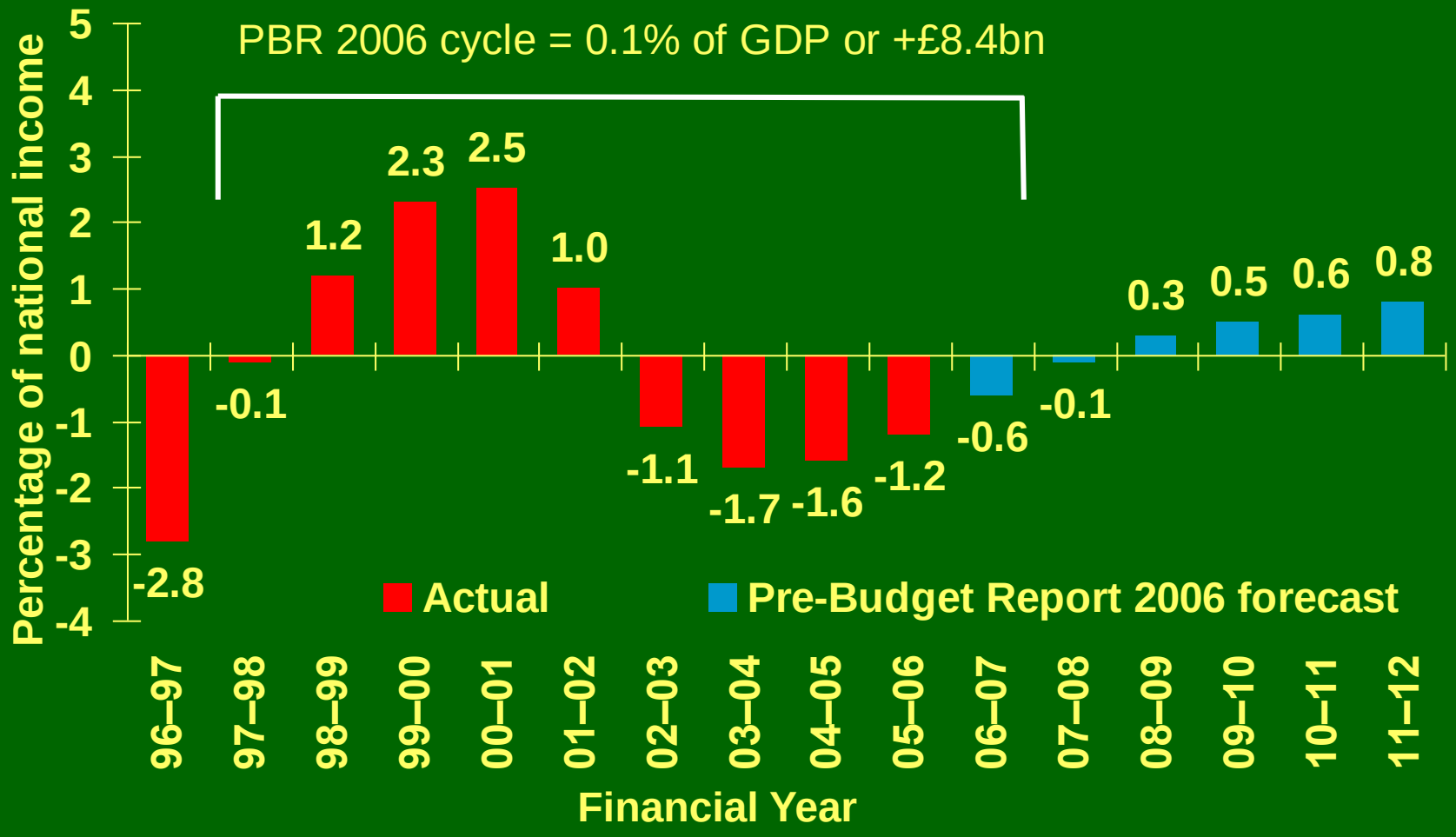

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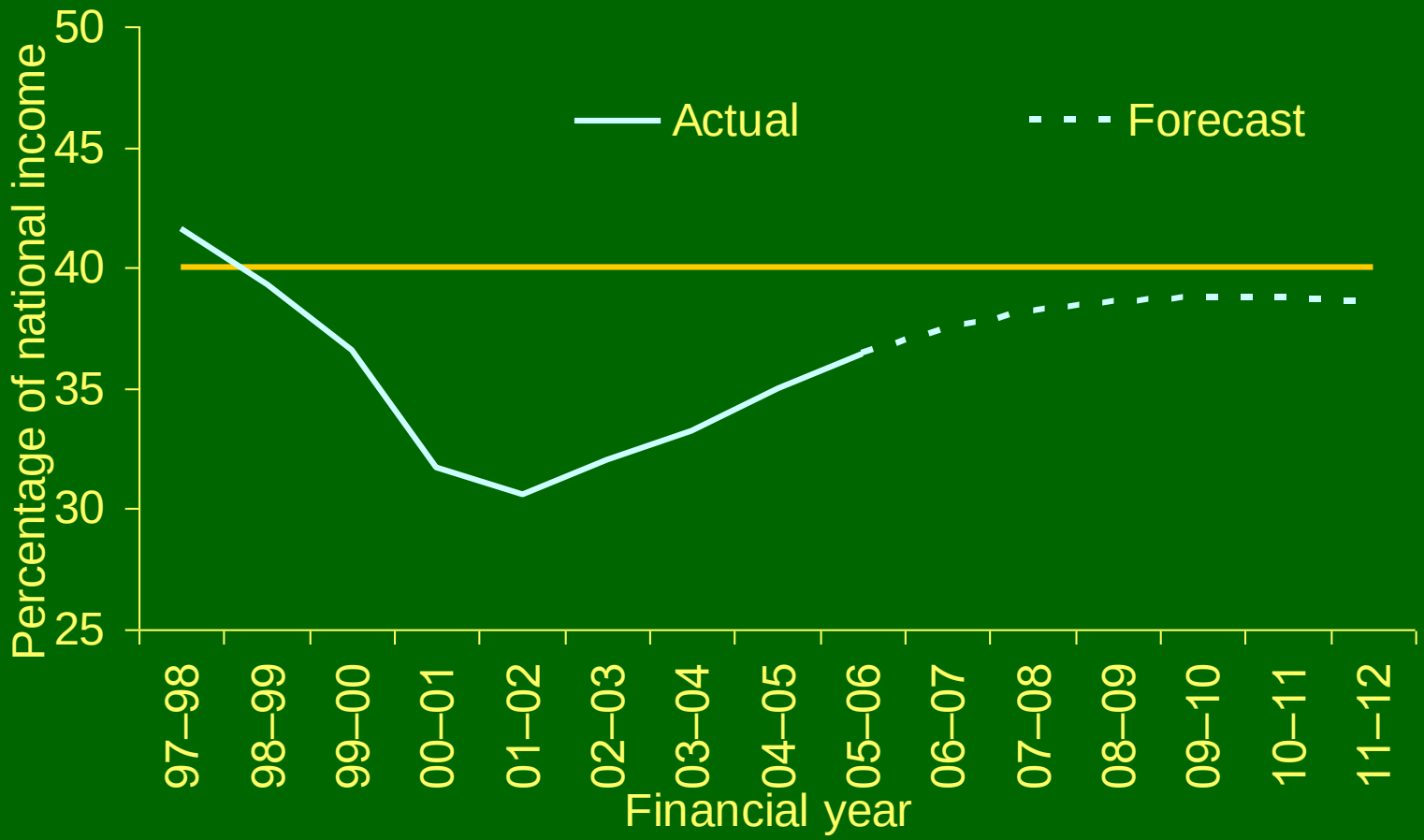
The sustainable investment rule

- Debt at a stable and prudent level
- This cycle: ≤40% of national income every year
- Undefined over next cycle

Will the investment rule be met?



Source: HM Treasury; IFS

Forecasts for the next five years

% national income	2006–07	2011–12
Net borrowing (PSNB)	2.8	1.3
Current budget balance	–0.6	0.8

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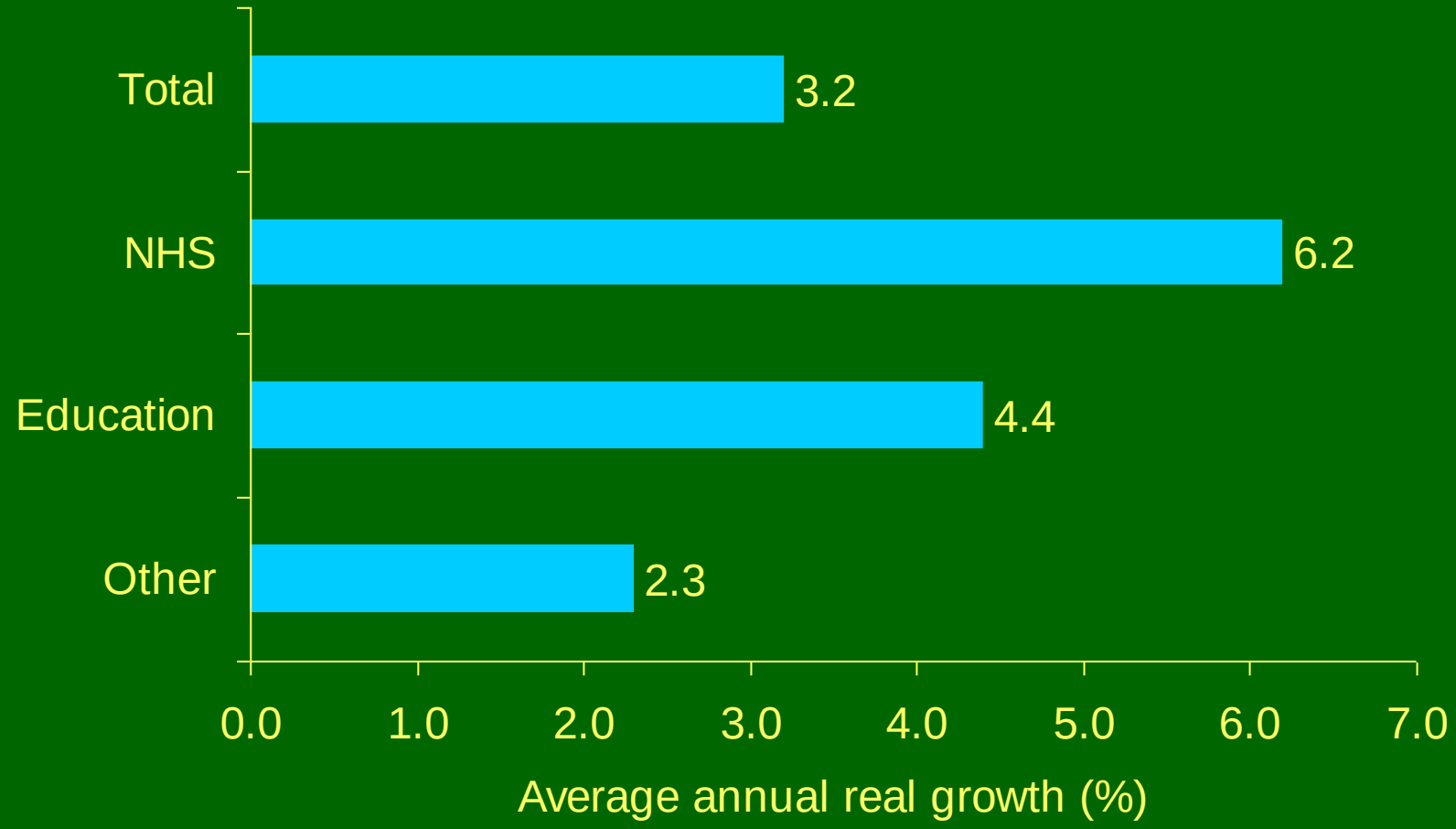
Current budget balance	–0.6	0.8
Current spending	40.3	39.5
Net investment	2.2	2.2
Revenues	39.7	40.4

A challenging spending review?

IFS

Average annual increase in spending (%)	Current	Capital	Total
2007 CSR	+1.9?	+2.7	+2.0?
Labour			
April 1999 to March 2008	+3.6	+15.6	+4.0
April 1997 to March 1999	–0.3	+6.7	–0.2
April 1997 to March 2008	+2.9	+13.9	+3.2
Conservatives			
April 1979 to March 1997	+1.7	–4.9	+1.5

How has spending increased?



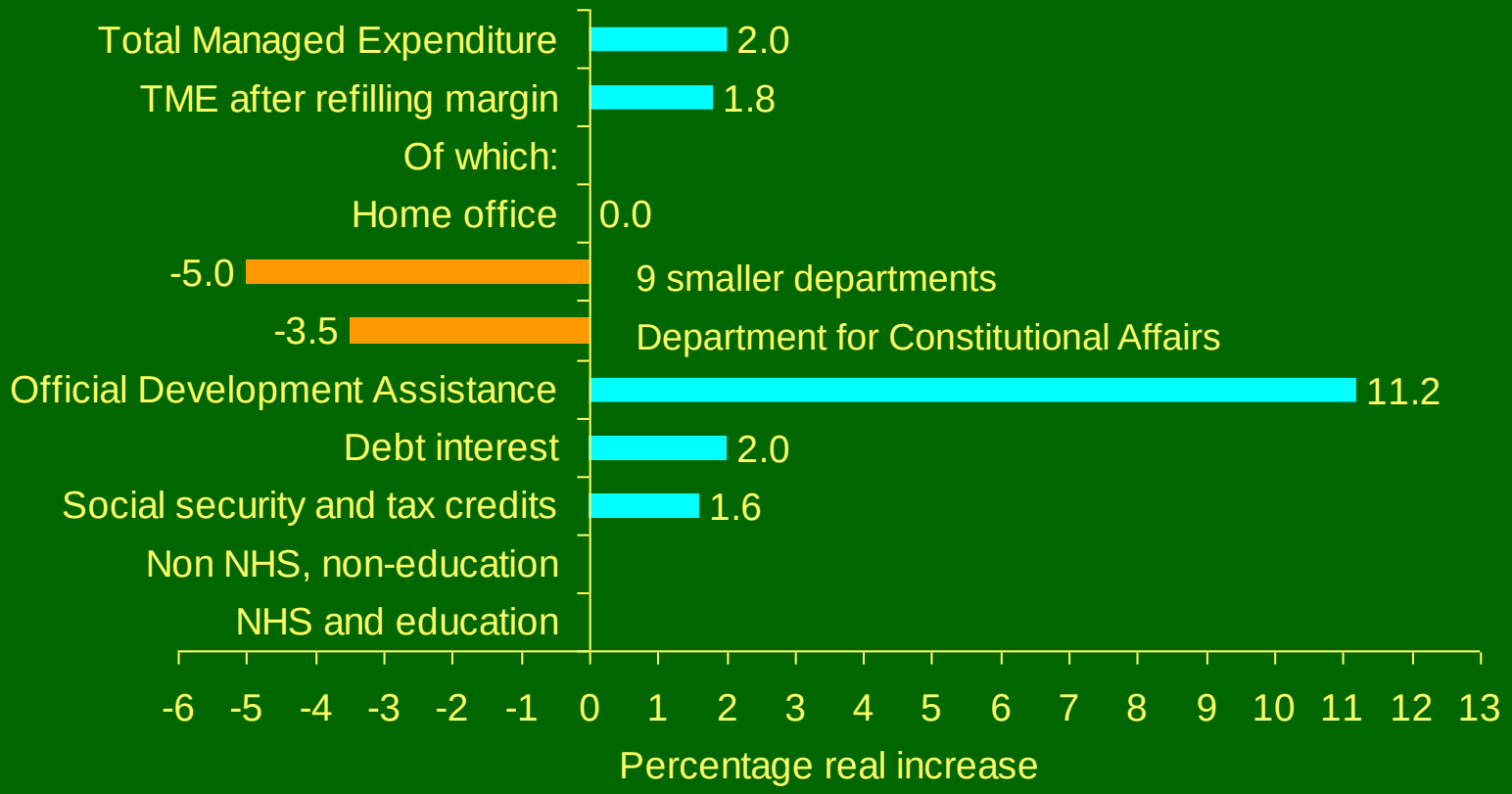
Source: HM Treasury

Note: Average annual increase 1996–97 to 2007–08

What might the trade-off be?

- Health spending
  - Wanless Review recommended minimum 4.4% annual growth in spending
- Education spending
  - State school spending per pupil to match that in the private sector in 2005–06
- Child poverty
  - £4½ billion needed to meet 2010–11 target

What increases might we have?



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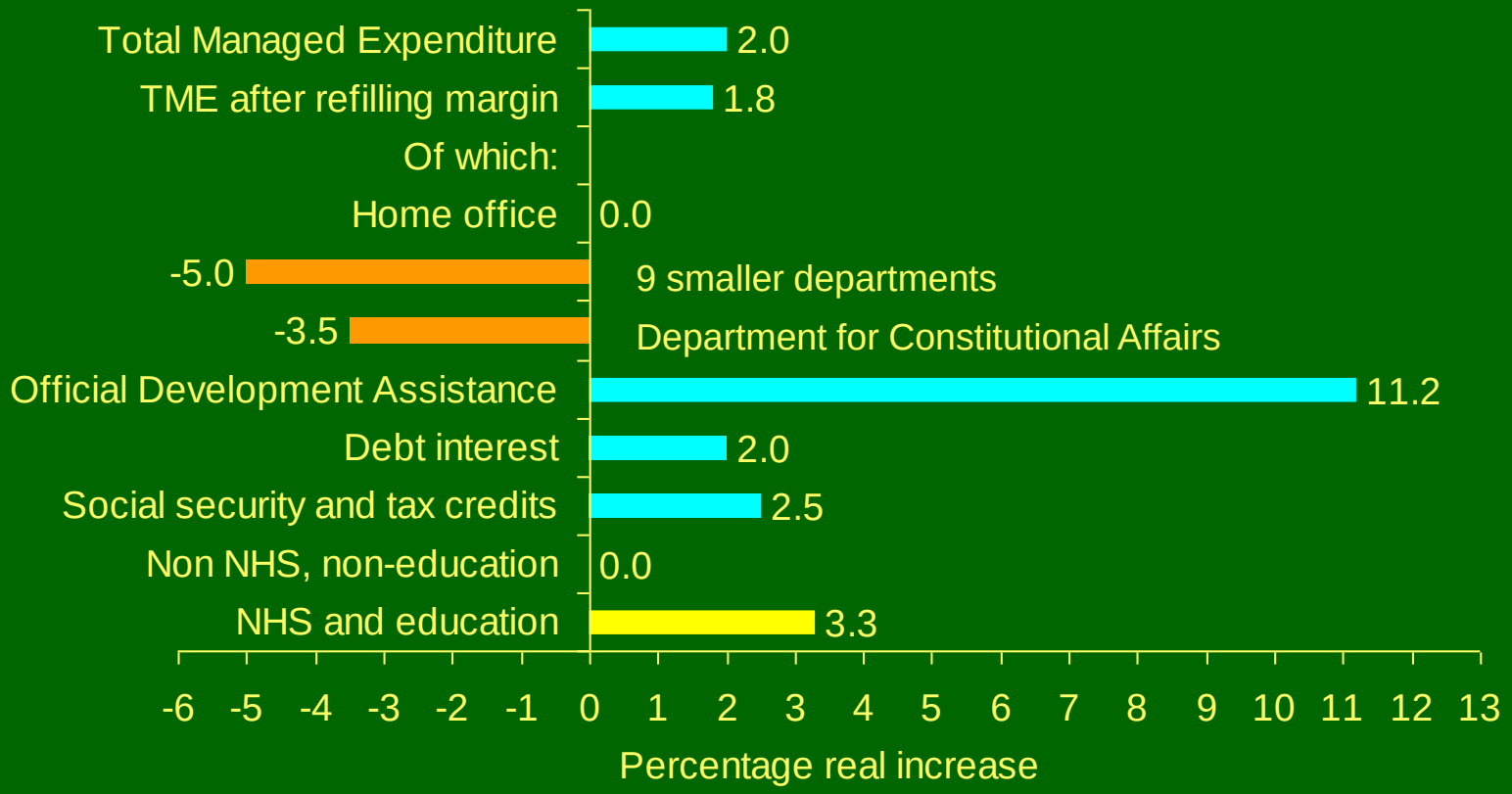

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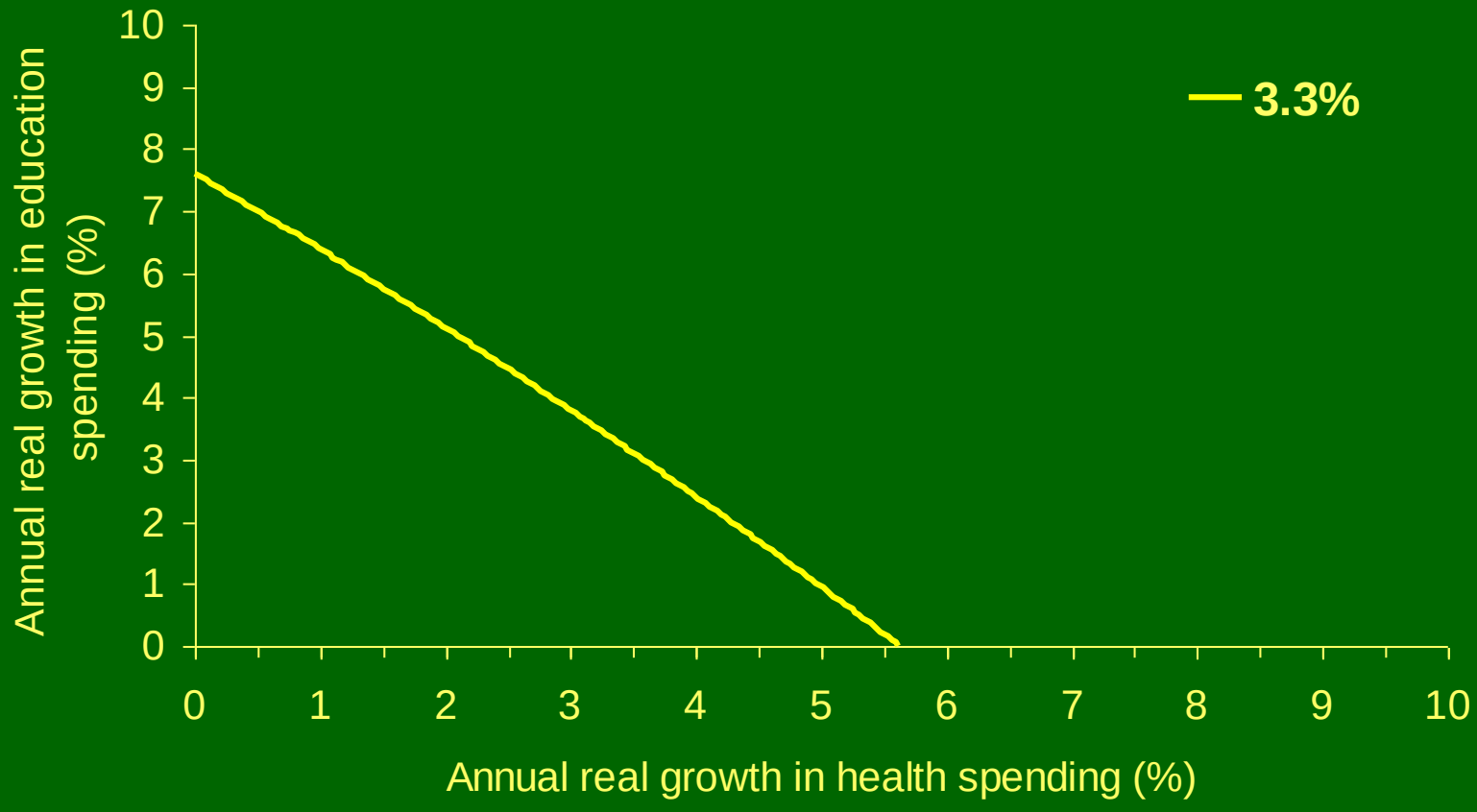
A trade-off between health and education?



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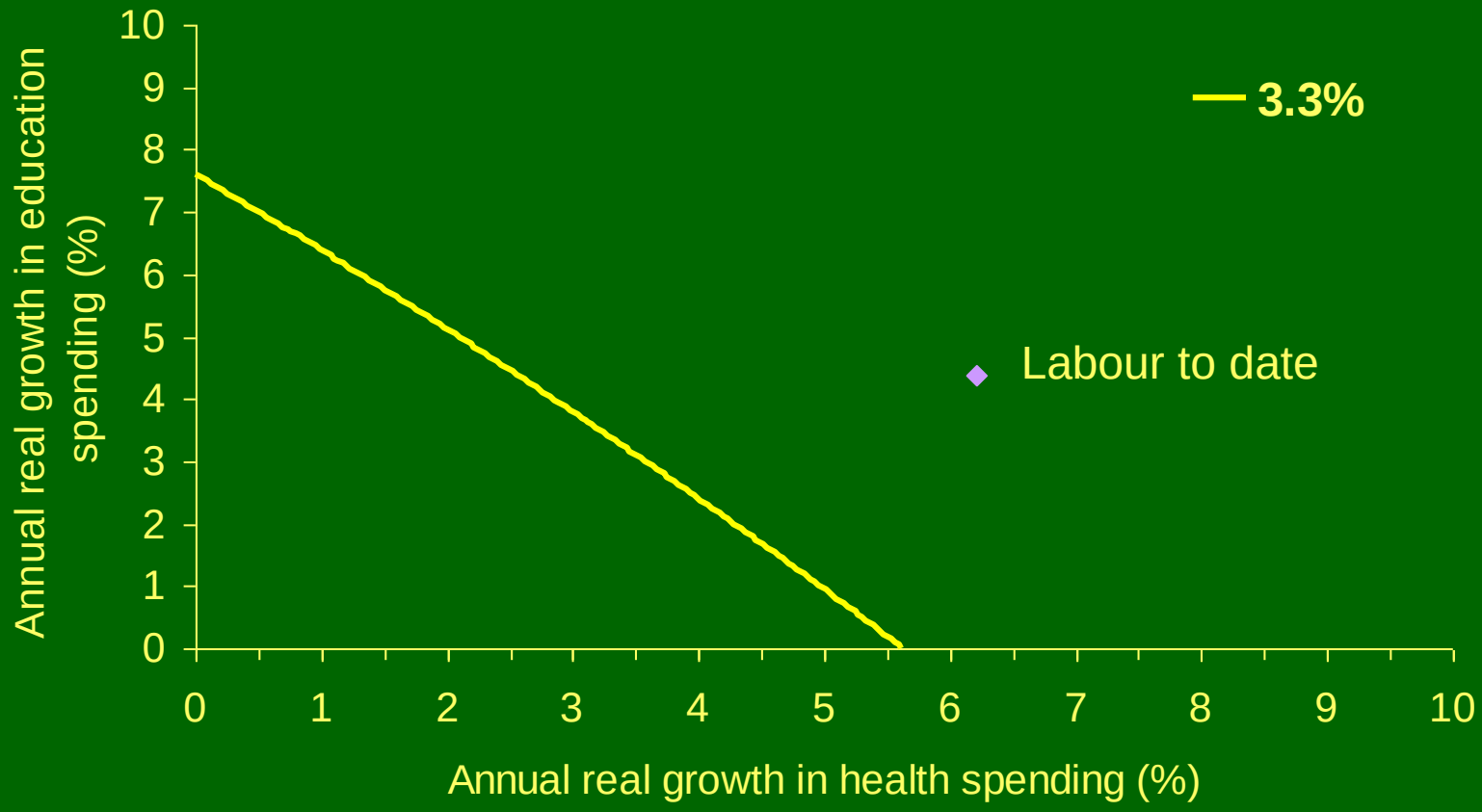

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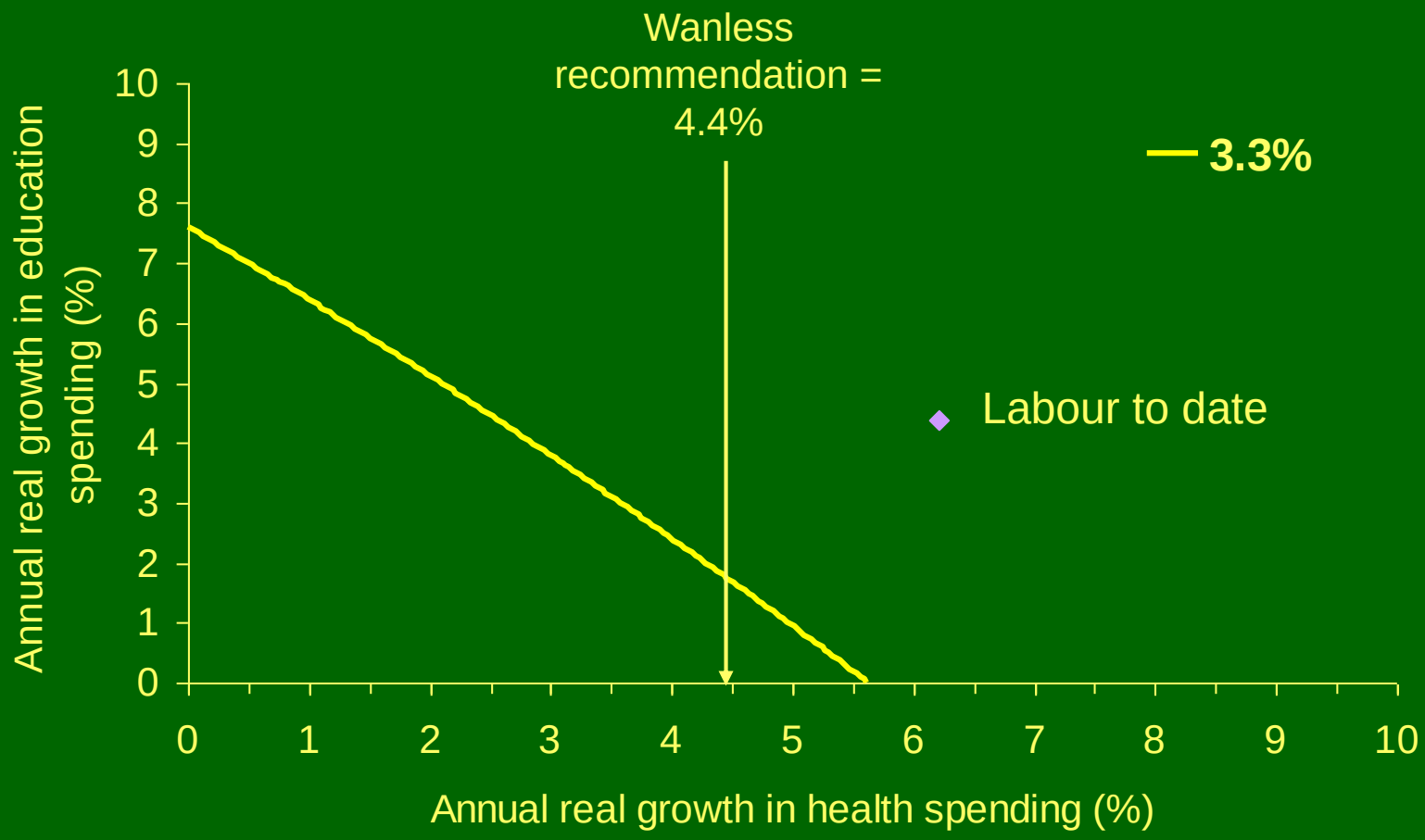

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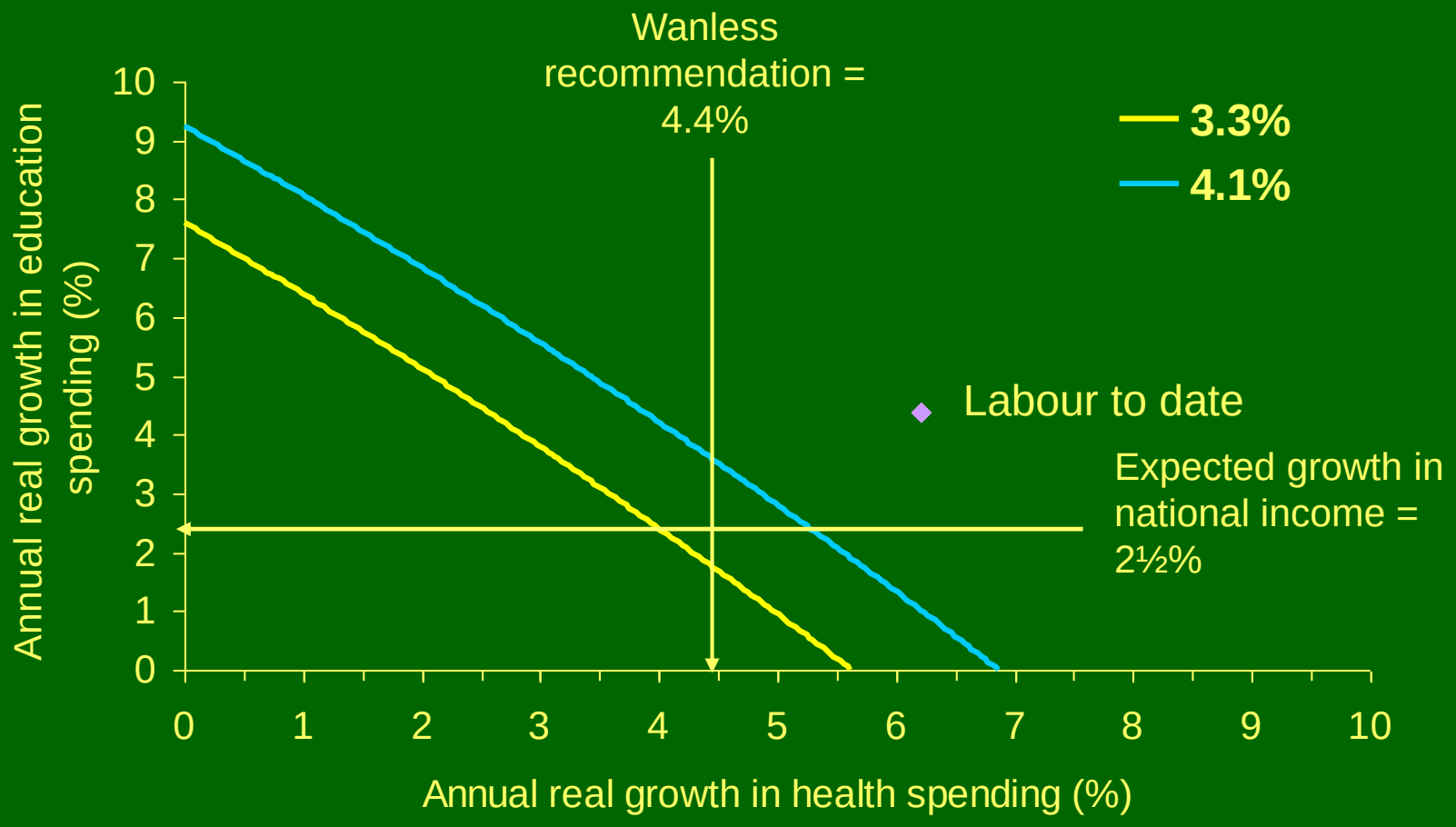

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