

# Public Spending

**ELECTION BRIEFING 2005**

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## Summary

- In its first three years in office, Labour saw public spending drop to a 39-year low as a share of national income, since when it has risen sharply. The overall increase in public spending seen between 1997 and 2005 is the 2<sup>nd</sup> largest among the OECD countries on which we have comparable information. But even the increases planned by Labour through to March 2008 would still leave the state spending a smaller share of national income than it did in the early 1990s.
- Public spending on the NHS, transport and education has increased much faster since Labour came to power than it did during the Conservatives' 18 years in office. By historical standards, spending in these areas has grown particularly quickly during Labour's second term in office.
- The period from April 1999 to date represents the largest sustained increase in spending on the NHS since its inception. This has meant that the Prime Minister's pledge to bring health spending up to the EU average has been met, if the benchmark is the simple average of EU health spending in 1998. However, UK health spending in 2005–06 is likely to be below the more meaningful weighted average of health spending among other EU countries in 1998, let alone what they have spent on healthcare more recently.

## 1. Introduction

As in previous general elections, the appropriate size of the state is a key issue. This Briefing Note describes the trends in public spending since Labour came to office in 1997 and compares them with those seen previously in the UK and in other OECD countries.

Section 2 compares the levels of public spending under Labour to date with historical levels and spending in other OECD countries. Section 3 compares the growth in the main components of public spending seen under Labour with growth seen under previous governments. It also provides some international comparisons – in particular, an assessment of whether the Prime Minister's pledge to increase health spending to the EU average by 2005 has been fulfilled.

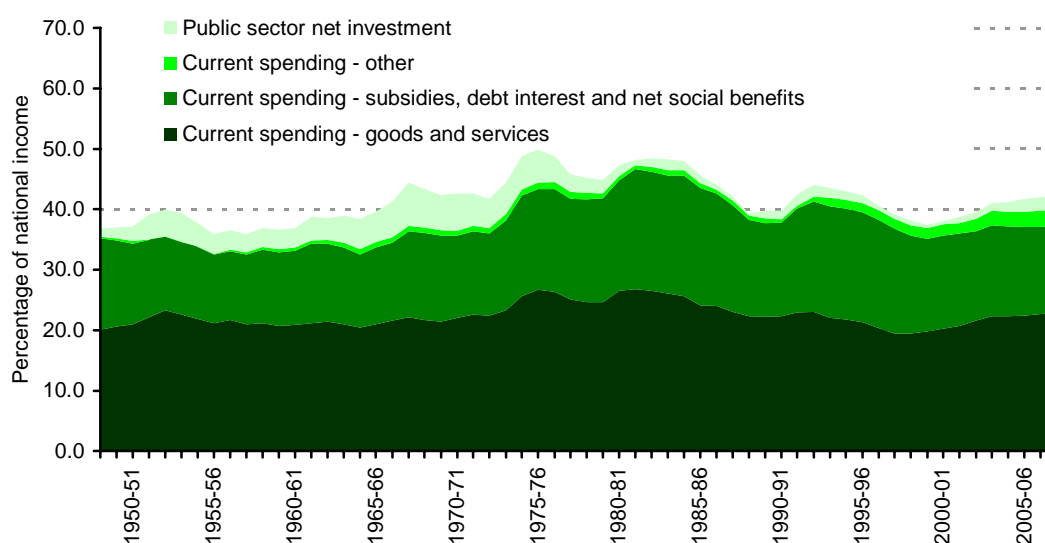
## 2. Total public spending

### 2.1 UK public spending over time

The size of the state, measured by public spending as a share of national income, is shown in Figure 1. Since the Second World War, total public spending (current spending plus public

sector net investment) has fluctuated between 35.9% and 49.9% of national income. It was at its lowest in 1957–58 and its highest in 1975–76. The current government inherited a level of 40.6% in 1996–97, from which it subsequently fell to 37.4% of national income in 1999–2000, the lowest since 1960–61. Since then, public spending has increased, reaching 41.2% of national income in 2004–05. This increase, unlike that in the early 1980s and the 1990s, has taken place during a period of relatively strong economic performance and therefore is not explained by the costs of rising unemployment. Under current government projections, public spending is set to increase further to 42.2% of national income in 2007–08. While this is greater than the levels of public spending seen in the last 10 years, it would still be below the level seen in the early 1990s.

Figure 1. Public spending since 1948–49



Note: Projections are from 2005 Budget. Current expenditure includes depreciation.

Sources: ONS, series ANBT; HM Treasury, *Public Finances Databank*, London, March 2005 (<http://www.hm-treasury.gov.uk/media/C62/B0/March05WEB.xls>); HM Treasury, *Budget 2005*, London, March 2005 ([http://www.hm-treasury.gov.uk/budget/budget\\_05/budget\\_report/bud\\_bud05\\_report.cfm](http://www.hm-treasury.gov.uk/budget/budget_05/budget_report/bud_bud05_report.cfm)).

Also shown in Figure 1 is the breakdown of public spending into current spending (by component) and public sector net investment. In the period since the Second World War, current spending on goods and services (including depreciation) peaked at 26.8% of national income in 1981–82 and reached a low of 19.4% in 1998–99. Cash transfers (in the form of net social benefits, subsidies and debt interest payments) peaked at 25.6% of national income in 1984–85 compared with a low of 11.4% of national income in 1956–57. (Other current spending was negative in the early 1950s and is set to reach a high of 2.7% of national income in 2007–08.)

Public sector net investment reached an all-time high of 7.1% of national income in 1967–68. It had fallen to 0.7% by the time Labour came to power and then dropped further to 0.5% in 1999–2000. Since then, and less quickly than it had hoped, the government has raised it to 1.6%. In 2005–06, it is forecast to jump to 2.1% of national income, which if delivered would be the highest level of public sector net investment since 1979–80. The four-year period from 1997–98 to 2000–01 (i.e. Labour’s first parliament) represents the lowest four-year period of public sector net investment since the Second World War. The fact that public sector net























