

Institute for
Fiscal Studies



Fiscal tightening: why and how?

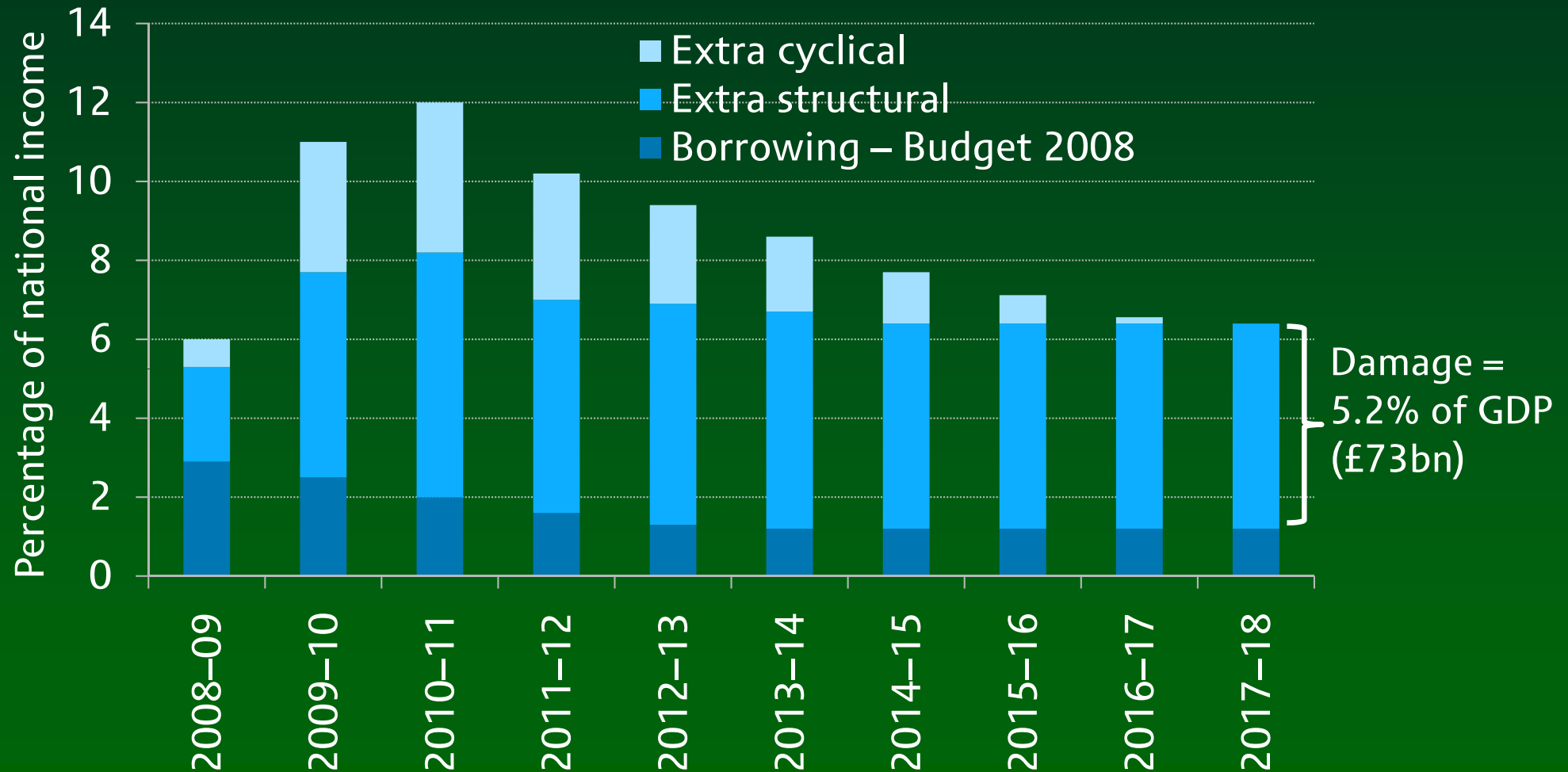
Robert Chote, Rowena Crawford, Carl Emmerson and Gemma Tetlow

Fiscal tightening: why and how?

- Disease:
 - permanent hit to public finances from financial crisis estimated by PBR 2009 at £73 billion a year

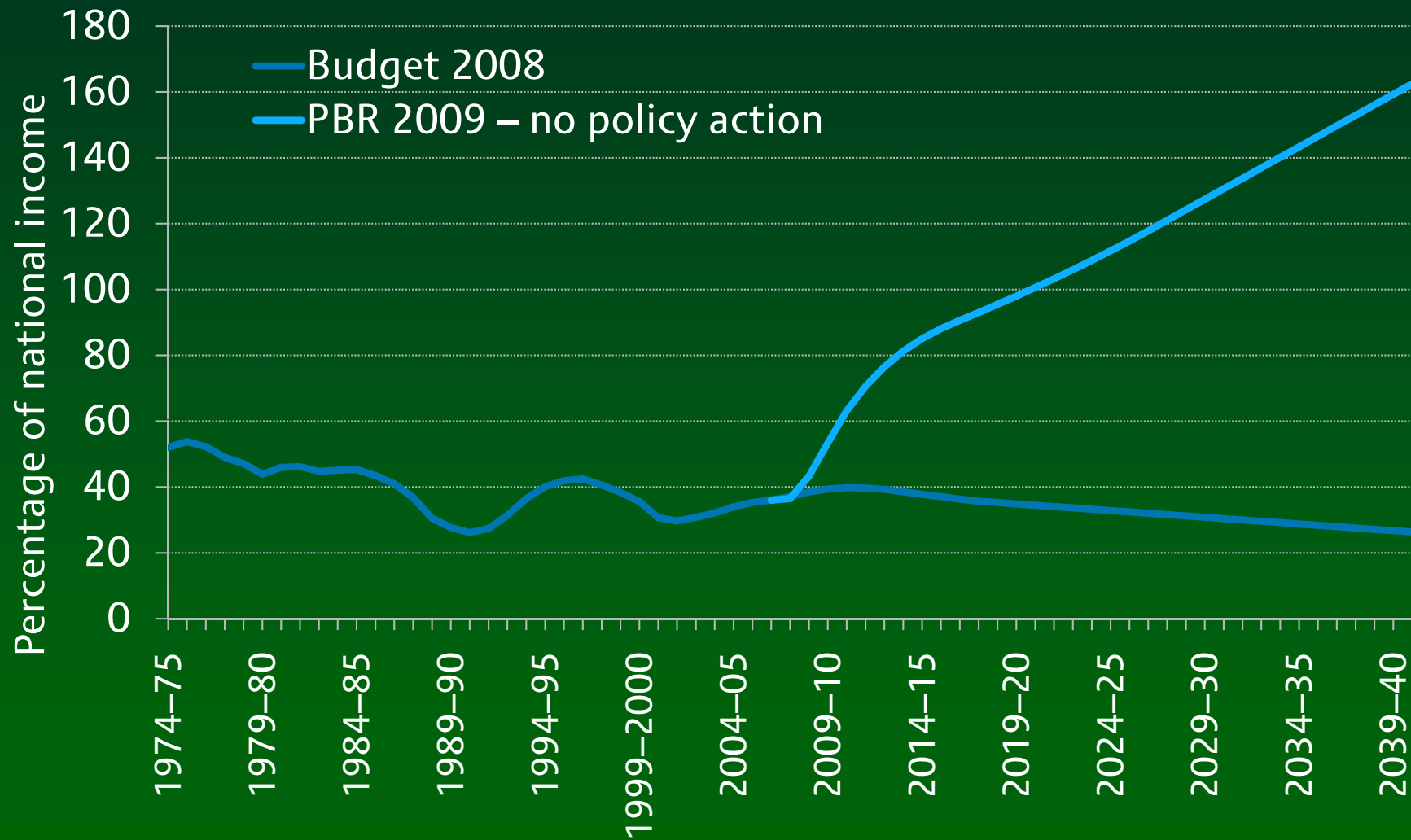
Disease: impact on borrowing

PSNB excluding impact of policies announced since Budget 2008



Disease: impact on debt

PSND excluding impact of policies announced since Budget 2008



Fiscal tightening: why and how?

- Disease:
 - permanent hit to public finances from financial crisis estimated by PBR 2009 at £73 billion a year
- Cure:
 - tax rises and spending cuts worth £77 billion by 2017–18
 - tax rises largely fall on the highest income 2%
 - borrowing back to pre-crisis levels, debt high for a generation

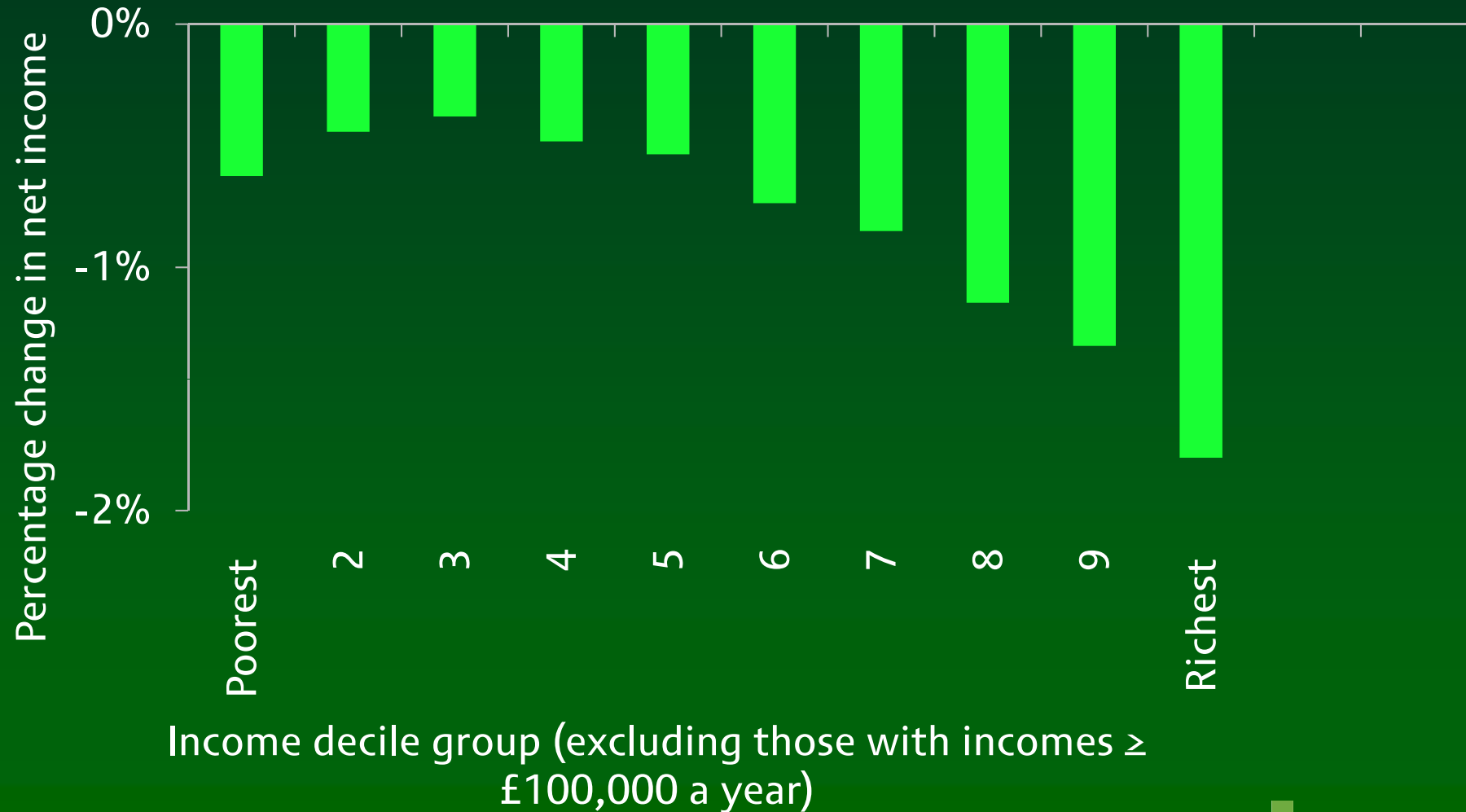
Cure: two parliaments of pain

Reduction in borrowing from policies announced since Budget 2008



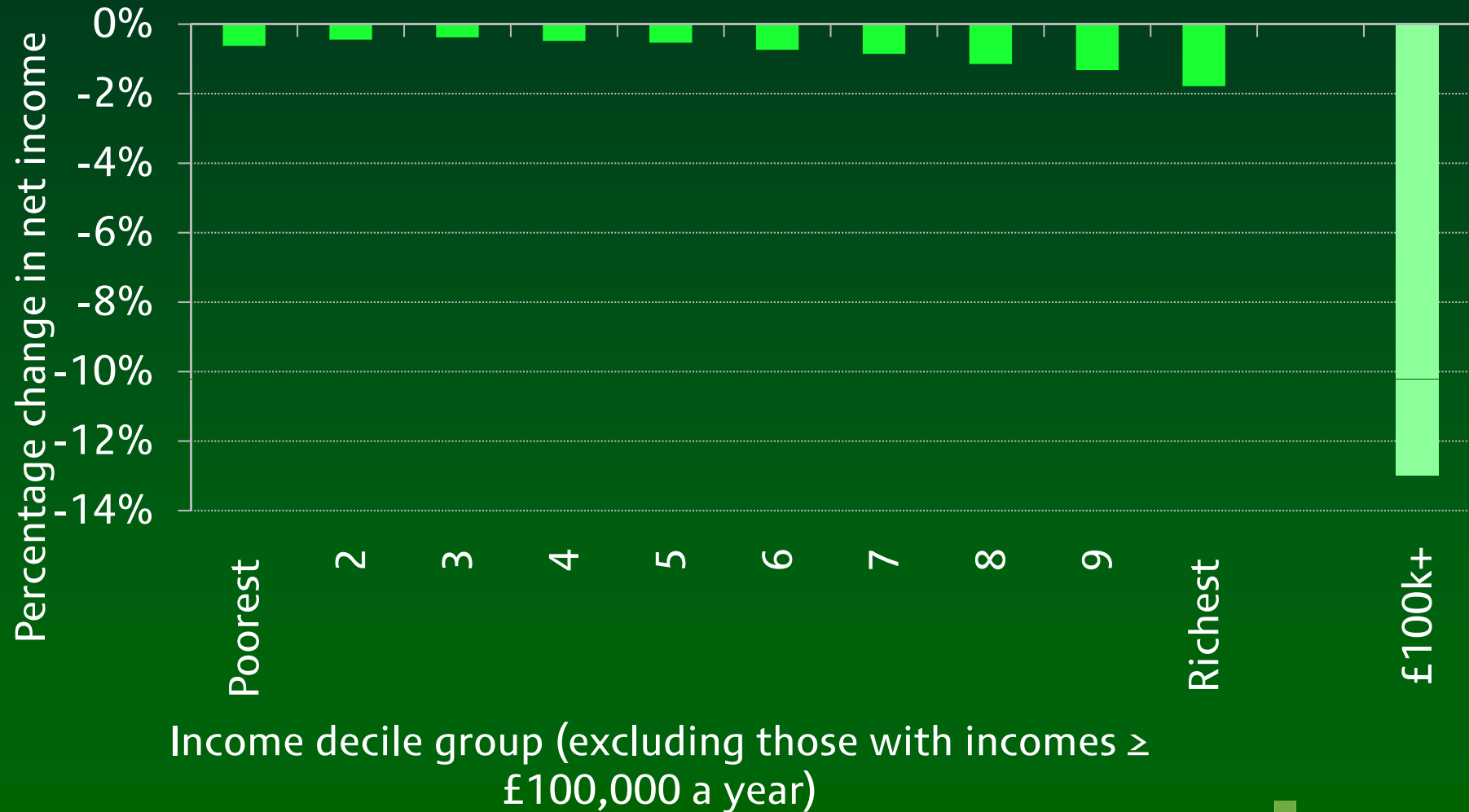
All in this together?

Average losses from tax increases announced since Budget 2008



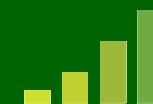
All in this together?

Average losses from tax increases announced since Budget 2008



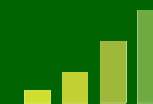
Increasing numbers to face higher income tax rates

Income	HRT-£100k			
Marginal tax rate	40%			
2011-12	3,250,000			
2012-13	3,770,000			
2013-14	3,970,000			
2014-15	4,160,000			
2015-16	4,260,000			



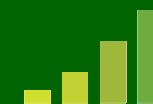
Increasing numbers to face higher income tax rates

Income	HRT-£100k	£100k-PA exhausted		
Marginal tax rate	40%	60%		
2011-12	3,250,000	150,000		
2012-13	3,770,000	170,000		
2013-14	3,970,000	200,000		
2014-15	4,160,000	230,000		
2015-16	4,260,000	260,000		



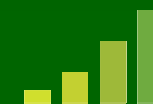
Increasing numbers to face higher income tax rates

Income	HRT-£100k	£100k-PA exhausted	PA exhausted – £150k	
Marginal tax rate	40%	60%	40%	
2011-12	3,250,000	150,000	240,000	
2012-13	3,770,000	170,000	250,000	
2013-14	3,970,000	200,000	280,000	
2014-15	4,160,000	230,000	310,000	
2015-16	4,260,000	260,000	340,000	



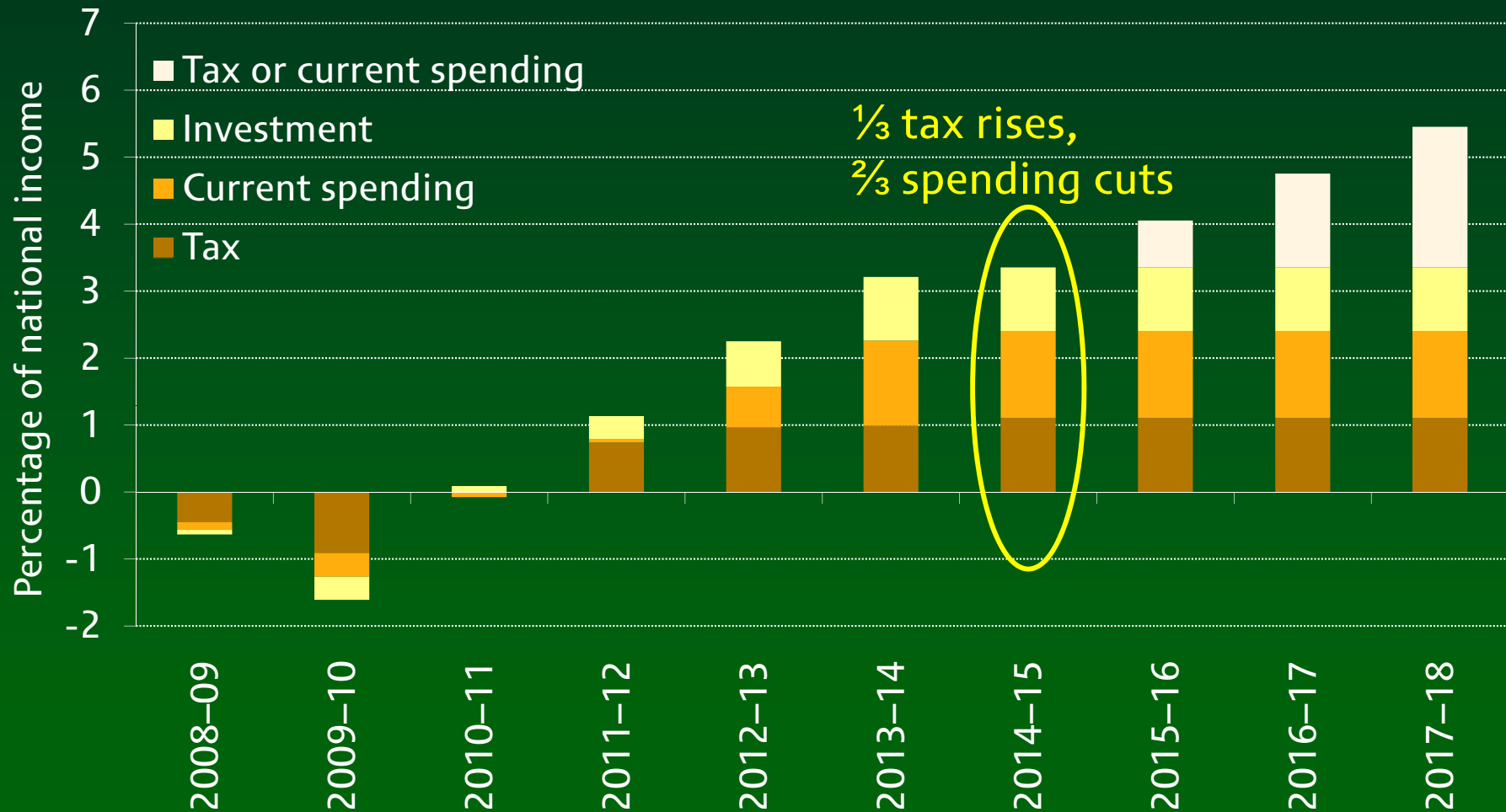
Increasing numbers to face higher income tax rates

Income	HRT–£100k	£100k–PA exhausted	PA exhausted – £150k	£150k plus
Marginal tax rate	40%	60%	40%	50%
2011–12	3,250,000	150,000	240,000	360,000
2012–13	3,770,000	170,000	250,000	410,000
2013–14	3,970,000	200,000	280,000	450,000
2014–15	4,160,000	230,000	310,000	500,000
2015–16	4,260,000	260,000	340,000	540,000



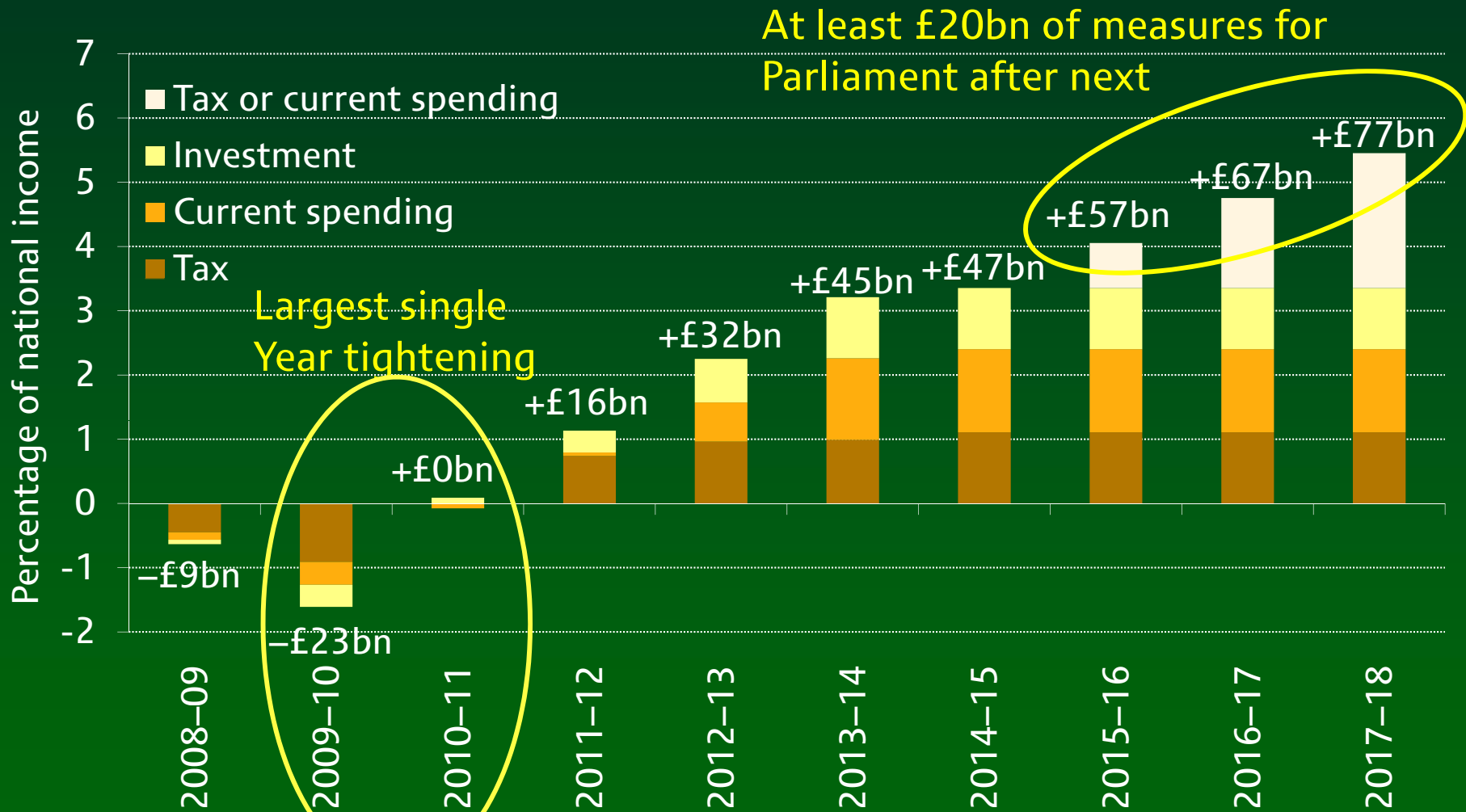
Cure: two parliaments of pain

Reduction in borrowing from policies announced since Budget 2008

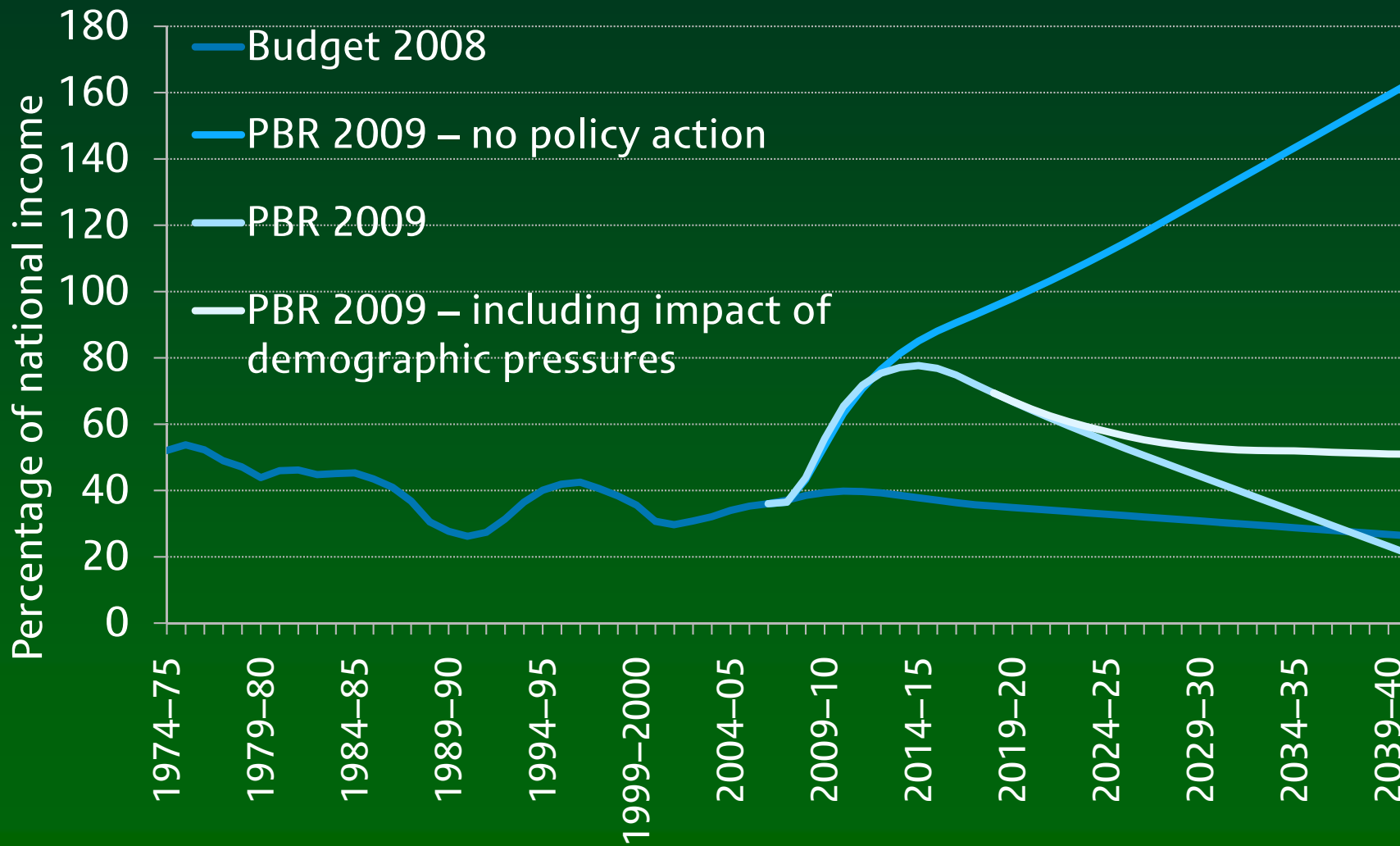


Cure: two parliaments of pain

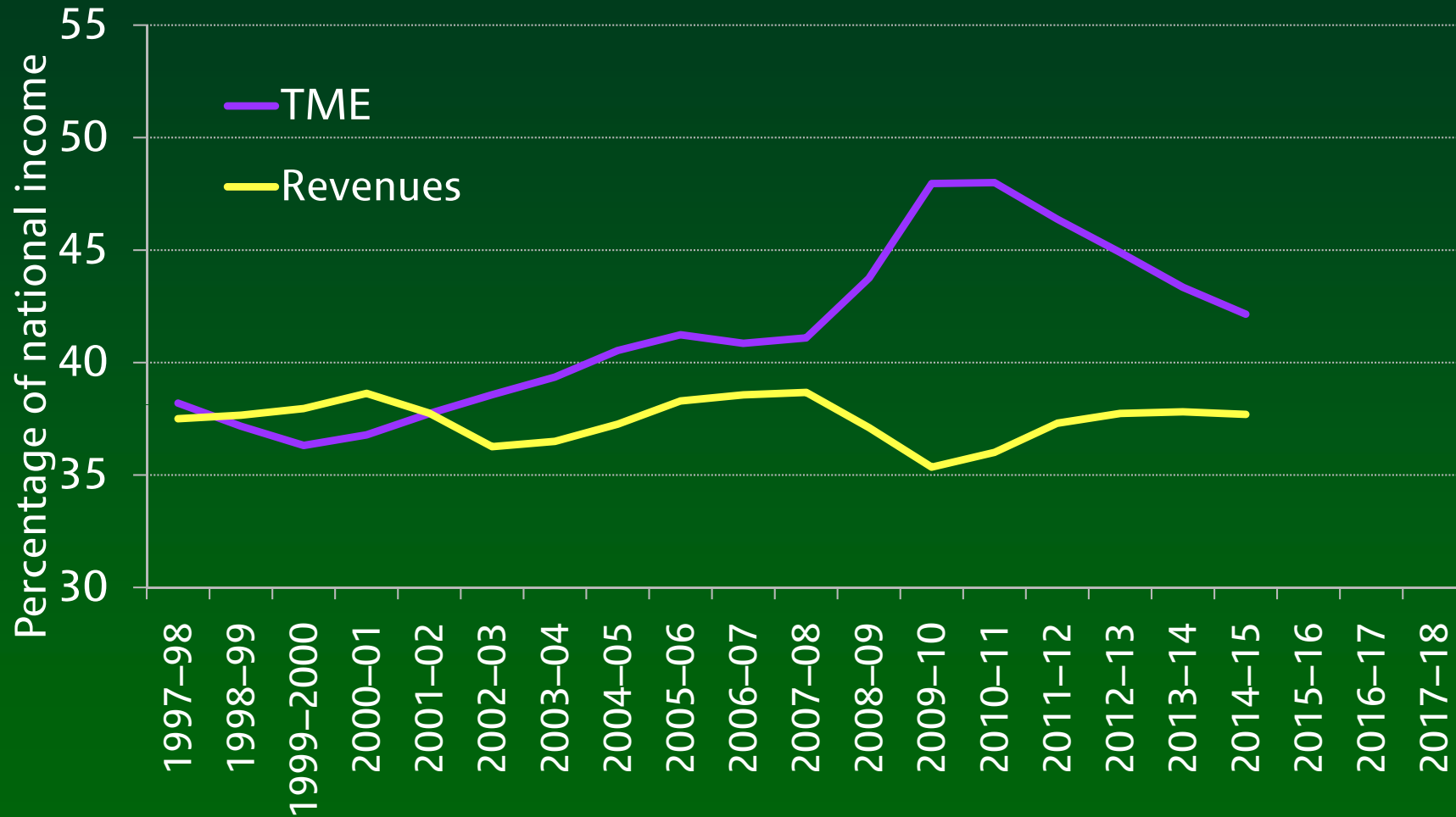
Reduction in borrowing from policies announced since Budget 2008



Before & after the cure: debt

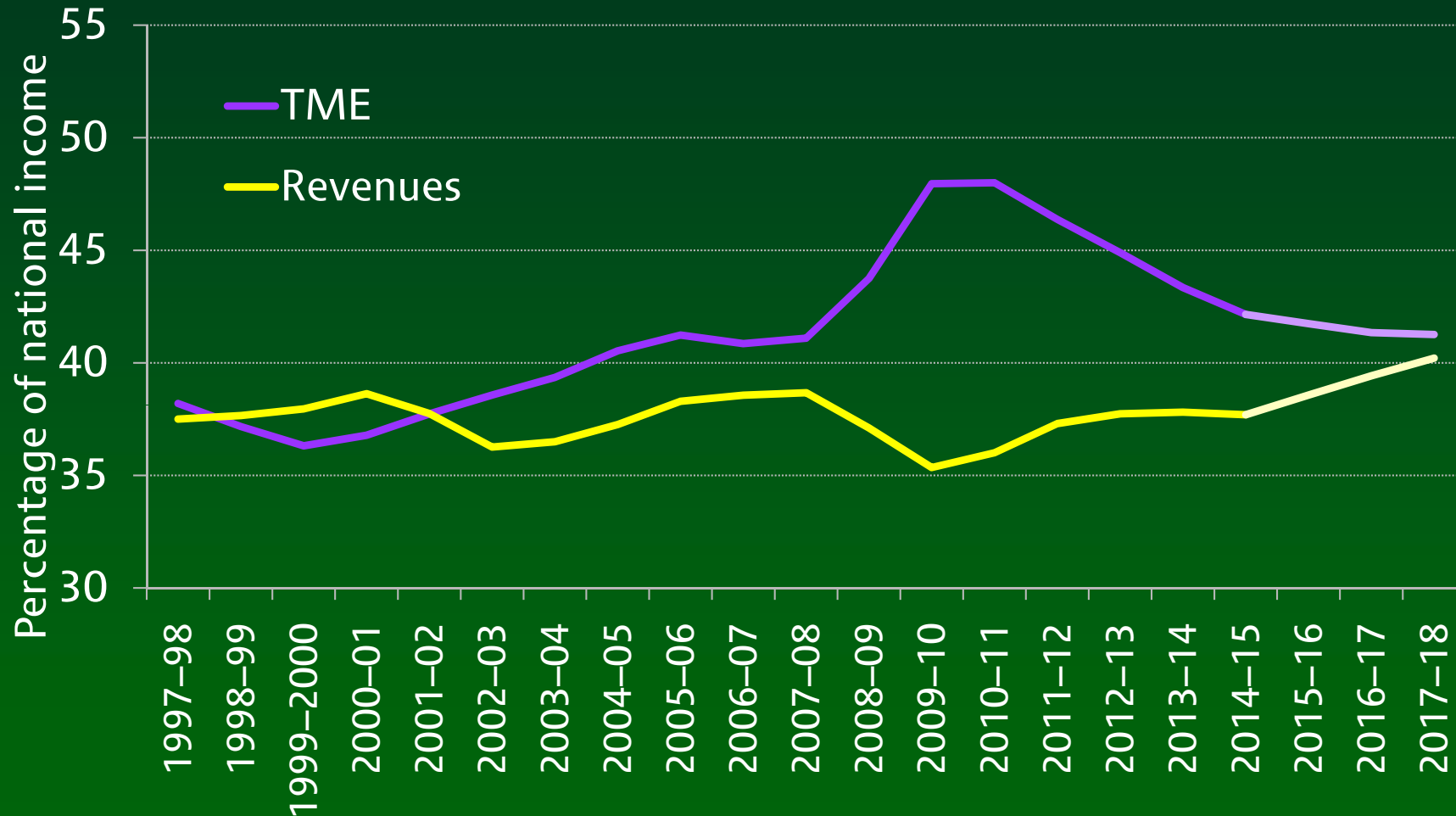


What composition of tightening?



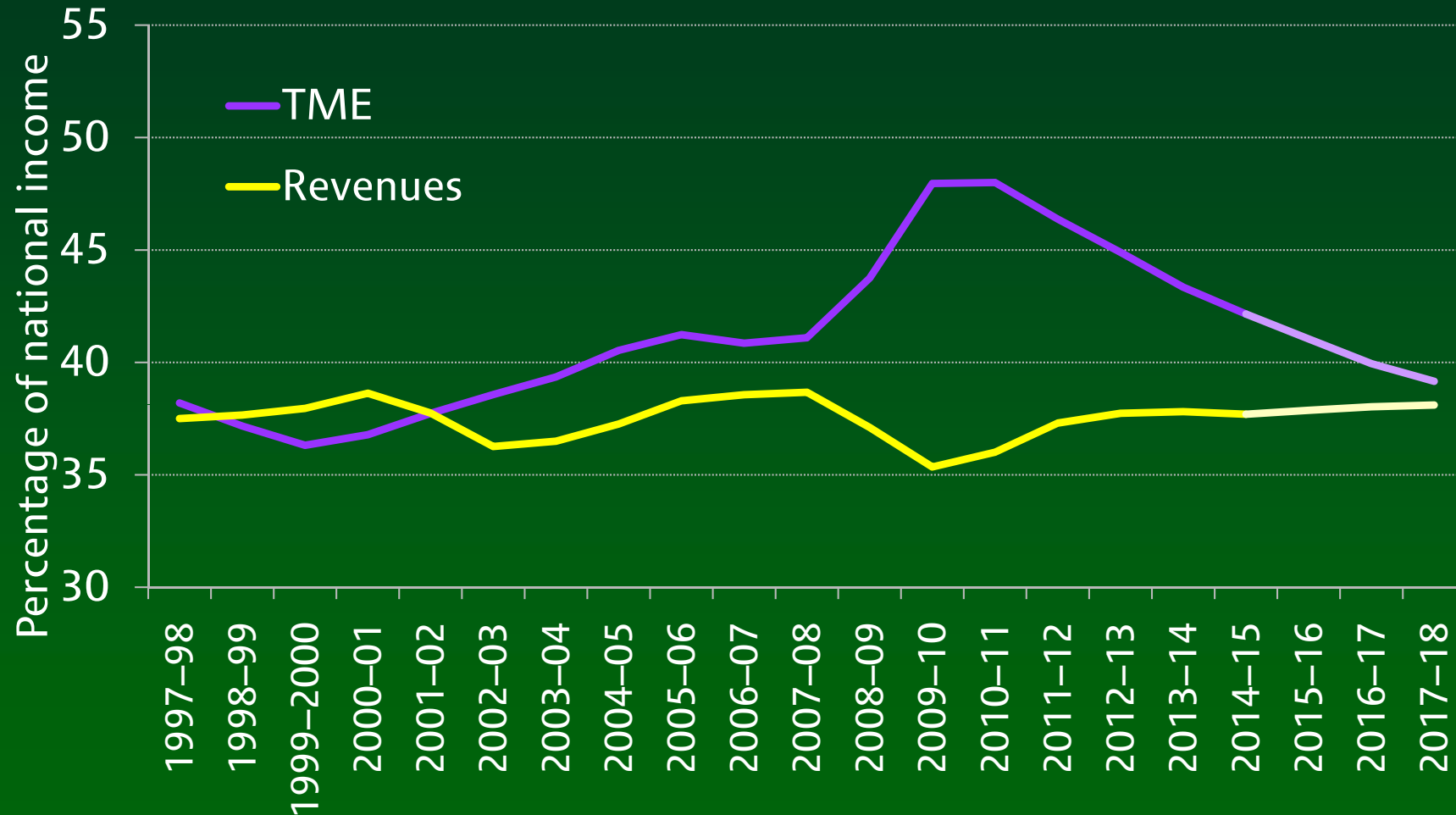
What composition of tightening?

(1) All tightening post 2015–16 from further tax raising measures



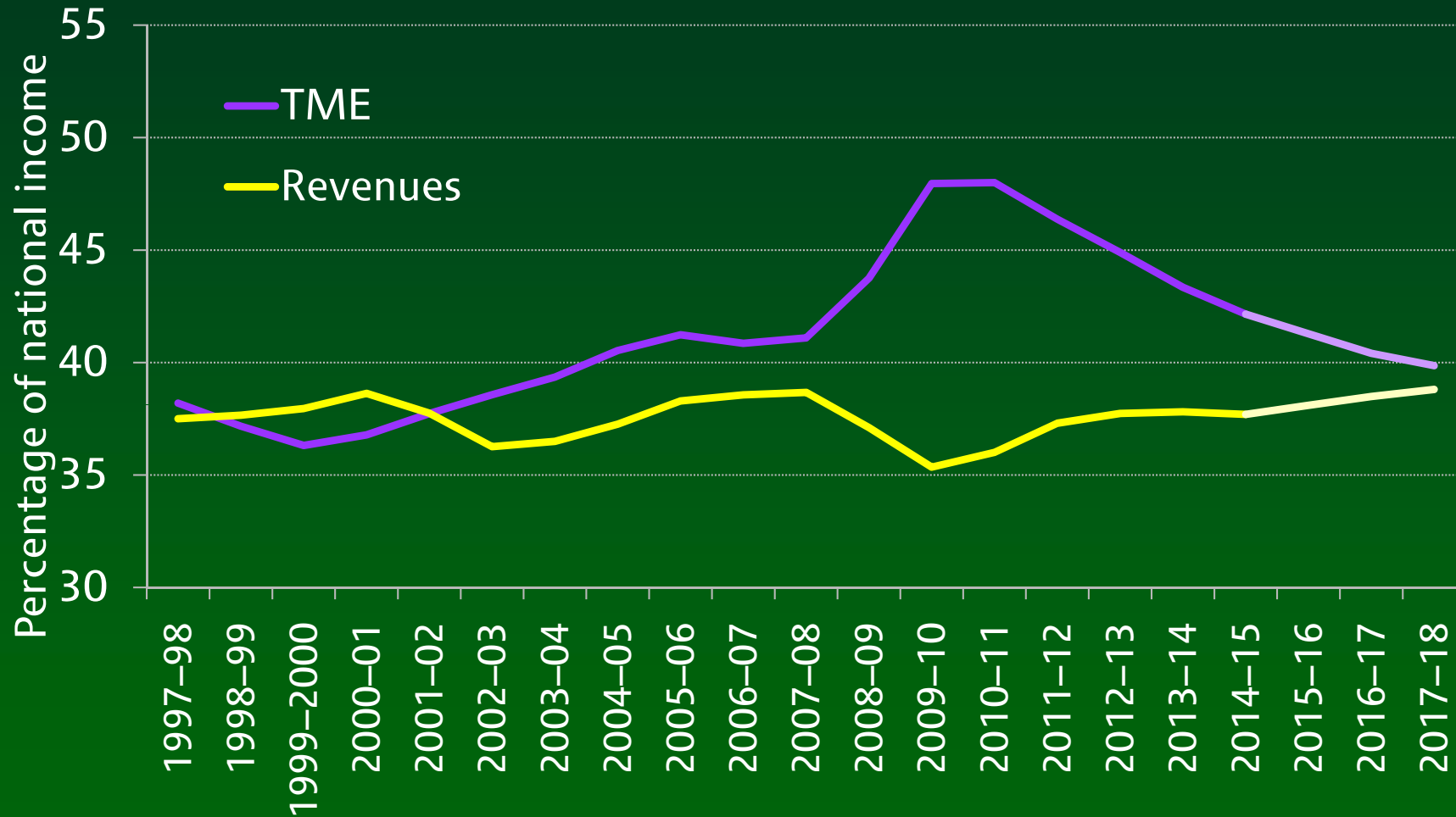
What composition of tightening?

(2) All tightening post 2015–16 from deeper cuts to spending



What composition of tightening?

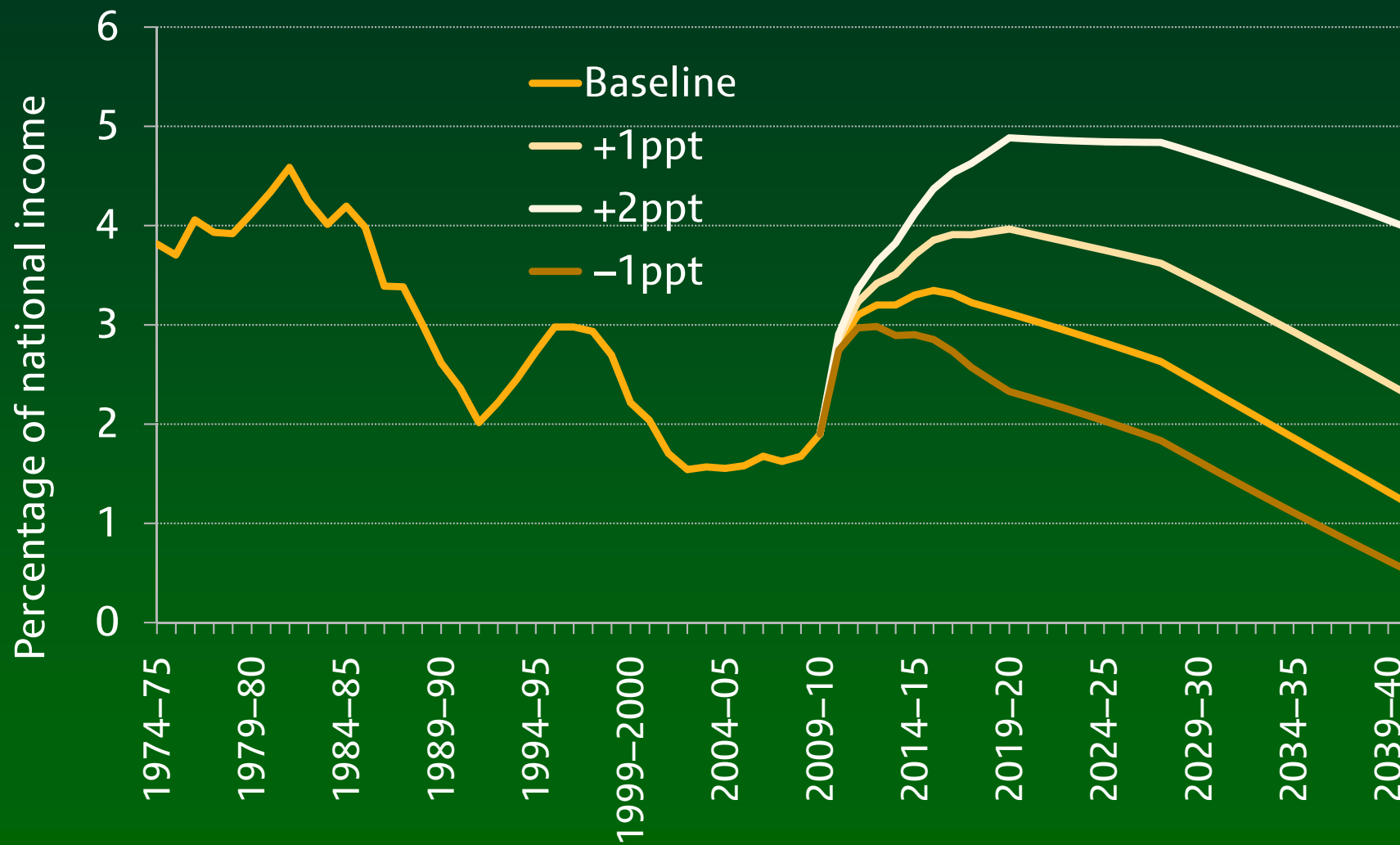
(3) Tightening post 2015–16 $\frac{1}{3}$ tax increases and $\frac{2}{3}$ spending cuts



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- Higher debt means greater exposure to risk of borrowing costs rising
 - could be reduced by tightening faster

Debt interest payments



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- We interpret Conservatives' proposed fiscal target as requiring £15 billion further tightening by 2015–16
 - under current policy: £11 billion spending cut and £5 billion tax rise?
 - pain deferred until 2017–18 under Labour

Borrowing with a faster tightening



Conclusions

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