

Good afternoon.

My name is Carl Emmerson and I am the Acting Director of the IFS. Welcome to our post Spending Review briefing.

We will be going through the measures that the Chancellor announced yesterday and describing their impacts on spending departments and individuals.

Harold Wilson said in 1967 “It does not mean that the pound here in Britain, in your pocket or purse or in your bank, has been devalued.” There may be questions about the impact of yesterday’s statement on inflation. But one cut the Government confirmed yesterday will literally reduce the value of the pound in your pocket. £10 million a year is to be saved by reducing the cost of metal used for coinage by the Royal Mint. We will not be attempting to estimate the distributional impact of this budget cut.

There will be four presentations. First, Rowena Crawford is going to describe the new plans for public spending and compare these to what was implied by Mr Darling’s March Budget. Second, Mike Brewer will assess the latest set of welfare cuts. Third, James Browne will set out our estimates of the distributional impact of the tax and benefit reforms to be implemented by this Government. Finally Cormac O’Dea will provide a critique of the Treasury’s attempt to model the distributional impact of the deep cuts to public-service spending.

All the slides will be posted on the IFS website. And copies of my opening remarks will be available at the end of this briefing and will also be downloadable from our website.

George Osborne decided yesterday to cut investment spending by £2 billion a year less than previously planned with the extra funds coming implicitly from higher borrowing. In order to reduce the cuts to departmental spending further he identified non-departmental cuts that are projected to save £11 billion in 2014–15. Of this £7 billion is from welfare cuts falling largely on working age individuals and £1.8 billion from members of public-service pensions who as a result of this measure combined with a previous Labour

announcement will see their contributions rise by an average of more than 3% of their salaries.

As a result the cuts to total public spending over the four years starting next April are, after economy-wide inflation, set to be the deepest since World War II and the cuts to spending on public services will be the deepest since the four years beginning in April 1975 when the then Labour Government was trying to comply with the IMF austerity plan.

Over the four years from next April the coalition is planning to cut total public spending by more than Alistair Darling planned. Mr Osborne said yesterday that – because of his cuts to welfare spending, and savings on debt interest by cutting borrowing more quickly, departmental spending over the four years starting next April will not be cut any harder than was planned by Mr Darling. But the new Government has already implemented cuts to spending in this year, thereby reducing the base for Mr Osborne’s comparison. So, by 2014–15 departmental spending is forecast to be below the level implied by the plans set out in Labour’s last Budget. And because this is true, any like-for-like comparison of spending in “unprotected areas” would also be higher in 2014–15 under the last Government’s plans than under the new Government’s plans.

The cuts to welfare spending mean that benefits will be focussed more on pensioners and less on families with children. The radical reform to council tax benefit is probably the one that raises the most concerns. Those in favour of greater localism may be pleased that greater powers are being transferred to local authorities. It will make the benefits system more complex and less transparent. It will also make it harder to make the benefit system fit together better as a whole. The incentive it provides to local authorities to encourage low-income people to move elsewhere is undesirable.

The Treasury’s modelling shows that the benefit measures announced yesterday will hit those in the bottom half of the income distribution more as a share of their income than those in the top half. We agree with this assessment. The Treasury also claimed that overall the tax and benefit measures yet to be implemented are progressive – in particular due to the tax increases announced by Mr Darling that the new Government is choosing to implement. But this analysis excludes some measures that we think it is

possible to make a rough estimate for. Our analysis – published in August – shows that by including a wider set of benefit reforms announced by this government leads to the conclusion that the impact of all tax and benefit measures yet to come in reduces the incomes of lower income households by more than that of higher income households, with the notable exception of the richest 2% of the population who are the hardest hit. Therefore the tax and benefit changes are regressive rather than progressive across most of the income distribution. And when we add in the new measures announced yesterday this finding is, unsurprisingly, reinforced. So our analysis continues to show that, with the notable exception of the richest 2%, the tax and benefit components of the fiscal consolidation are, overall, being implemented in a regressive way. But this is not to say that it is unfair: fairness will always be in the eye of the beholder.

Some of the biggest losses from yesterday's announcements will be felt by those who would have benefited most from the public services that are being cut. The difficulty of estimating the value of public services for different households means that we do not have a single preferred estimate of their distributional impact. The Treasury yesterday published an attempt to model the distributional impact of some of the cuts to public-services. This is far from straightforward and it is laudable that the Treasury has attempted this exercise and has openly acknowledged its shortcomings. They should continue to publish this type of analysis in the future and in the meantime should consult on how it can be improved. The results are very sensitive to the assumptions that are made. But for what it is worth the Treasury's analysis shows that those cuts to public services announced yesterday that they were able to model will impact on those in the bottom half of the income distribution more than the top. So the Treasury's analysis shows both the welfare cuts and public service cuts announced yesterday being regressive. But large tax rises for the very rich announced by Labour lead, on the Treasury's estimates, to the overall fiscal consolidation hitting the highest income individuals the most.

Thank you. I will now hand over to Rowena.