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Fiscal Studies

Fiscal challenges in the next parliament

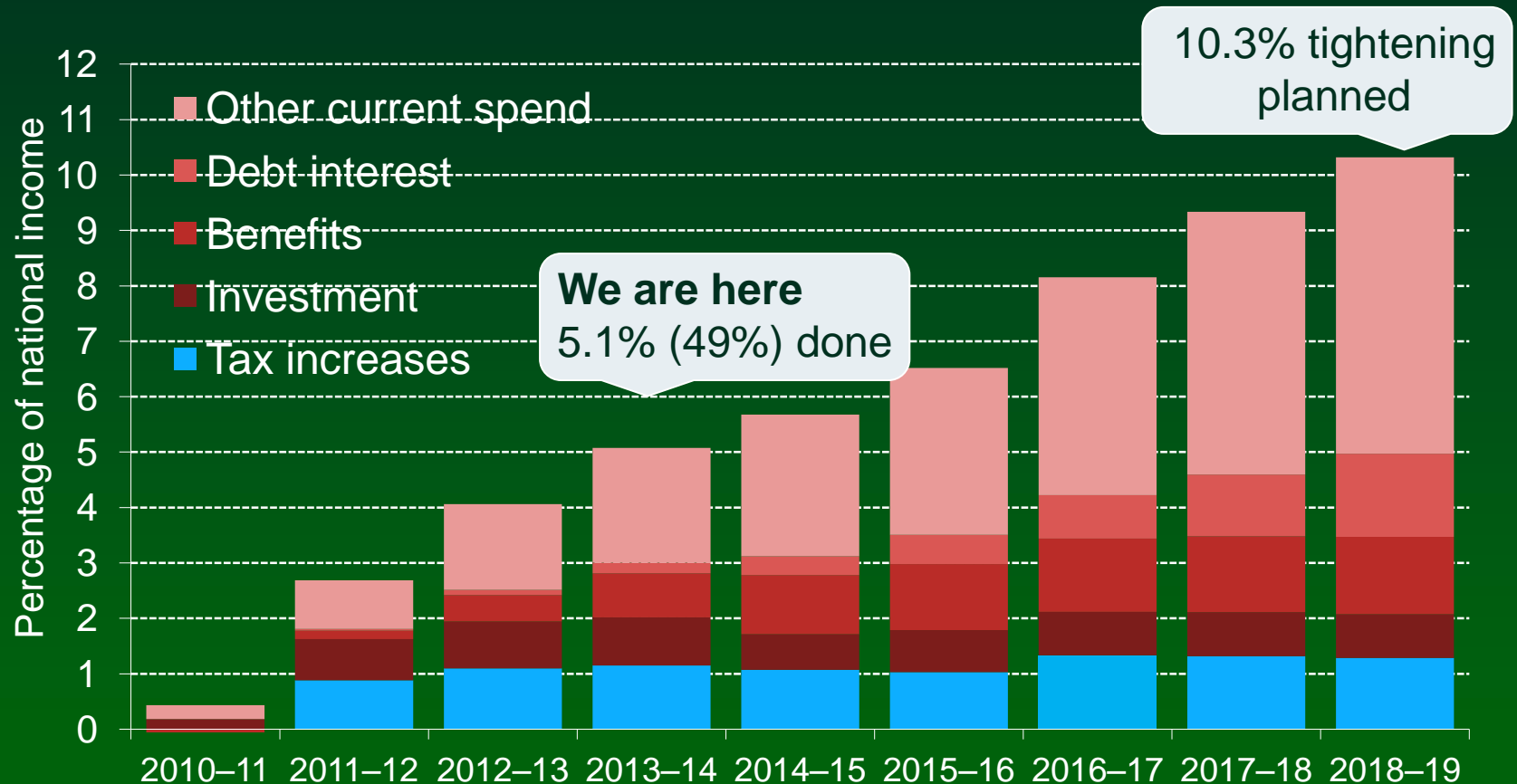
Paul Johnson

Where have we got to on the deficit?

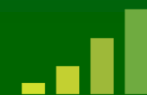
- Deficit reached £157 billion in 2009-10
 - 11% of GDP
- Down to £108 billion in 2013-14 and expected to be at £95 billion this year
 - 5.5% of GDP
- £70 billion of that deficit is judged to be structural
- Debt at 75% of GDP and still rising
 - 90% on Maastricht Treaty definitions

- There is a long way still to go

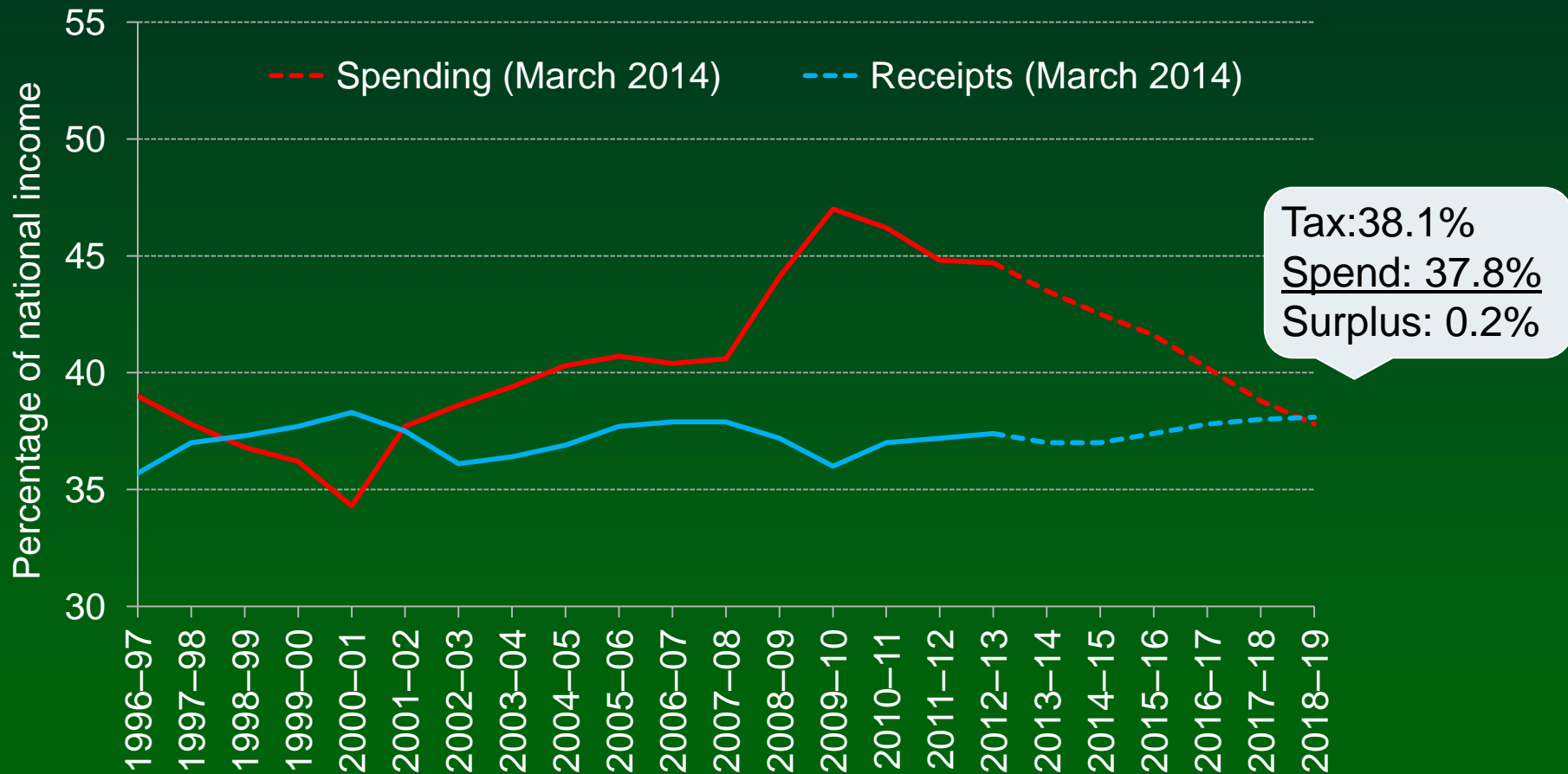
The planned consolidation



Notes and sources: IFS calculations based on Budgets and Autumn Statements since 2008. Consistent with Budget 2014.

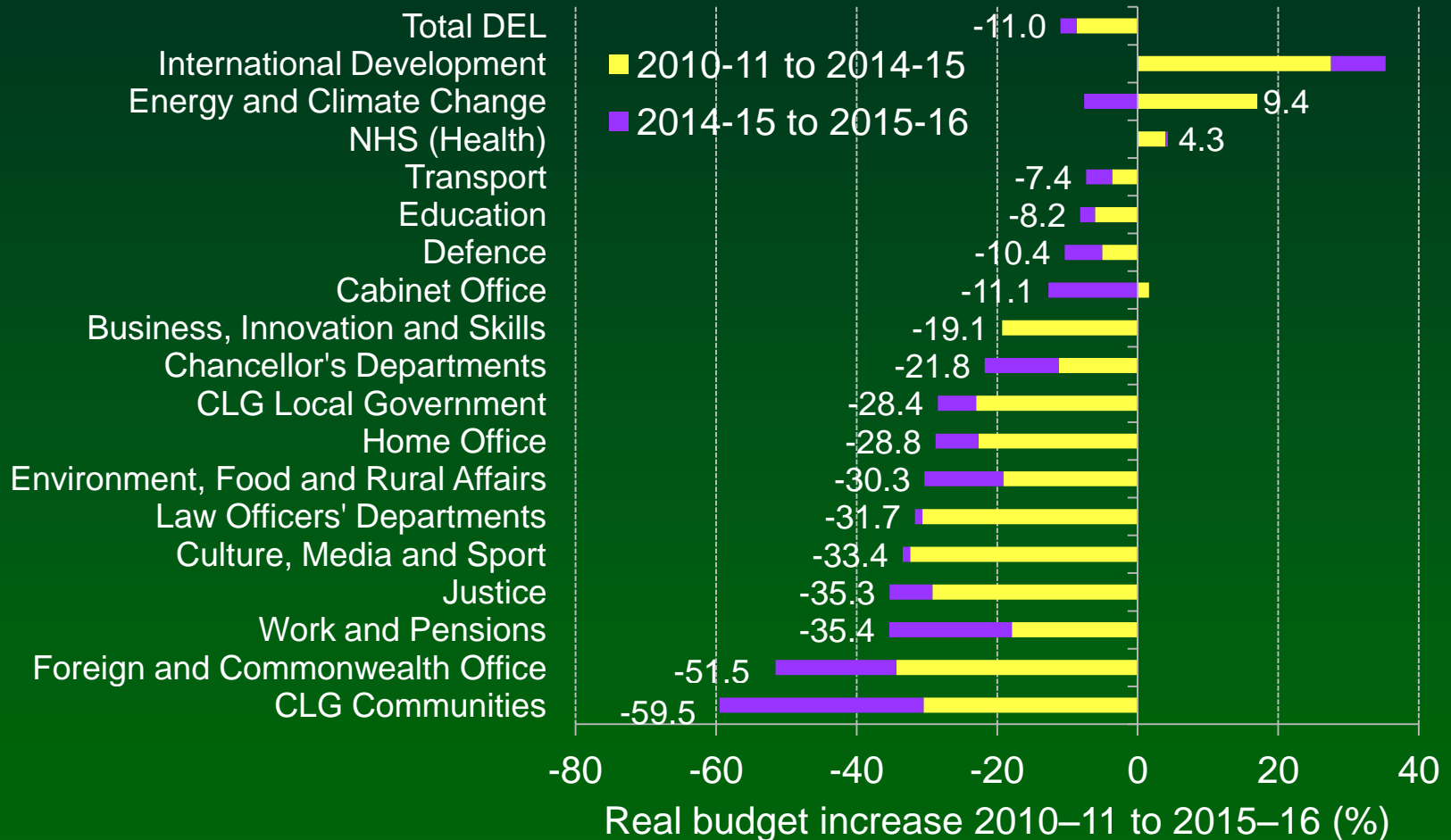


Bringing tax and spend back to pre-crisis levels



Note: Excluding Royal Mail and APF transfers.
Source: ONS; OBR.

Departmental cuts to 2015-16



Note: Figures show cumulative change in total DEL after economy-wide inflation. Adjusted for consistency, including for business rate retention policy, movement of cost of operations into the special reserve, financial transactions associated with 'Right to Buy' policy, and the Green Investment Bank.



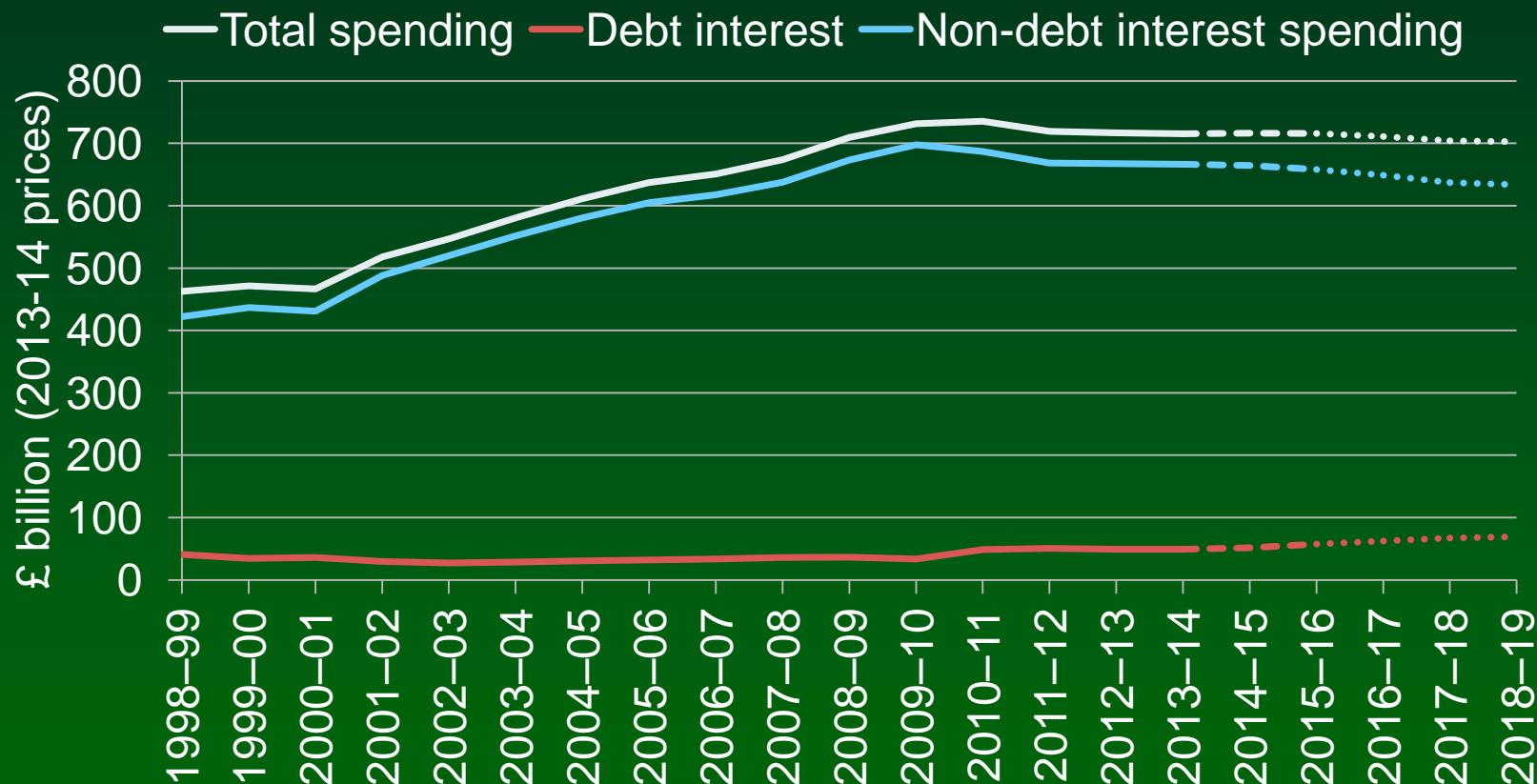
Planned cuts to spending

2010–11 to 2018–19:

Total spending: -4.4% ($-\pounds 32.6\text{bn}$)

Debt interest: $+42.7\%$ ($+\pounds 20.7\text{bn}$)

Non-debt interest: -7.8% ($-\pounds 53.3\text{bn}$)



Source: Chapter 2 of *IFS Green Budget: February 2014*. Additional authors' calculations using data from HM Treasury and Office for Budget Responsibility.



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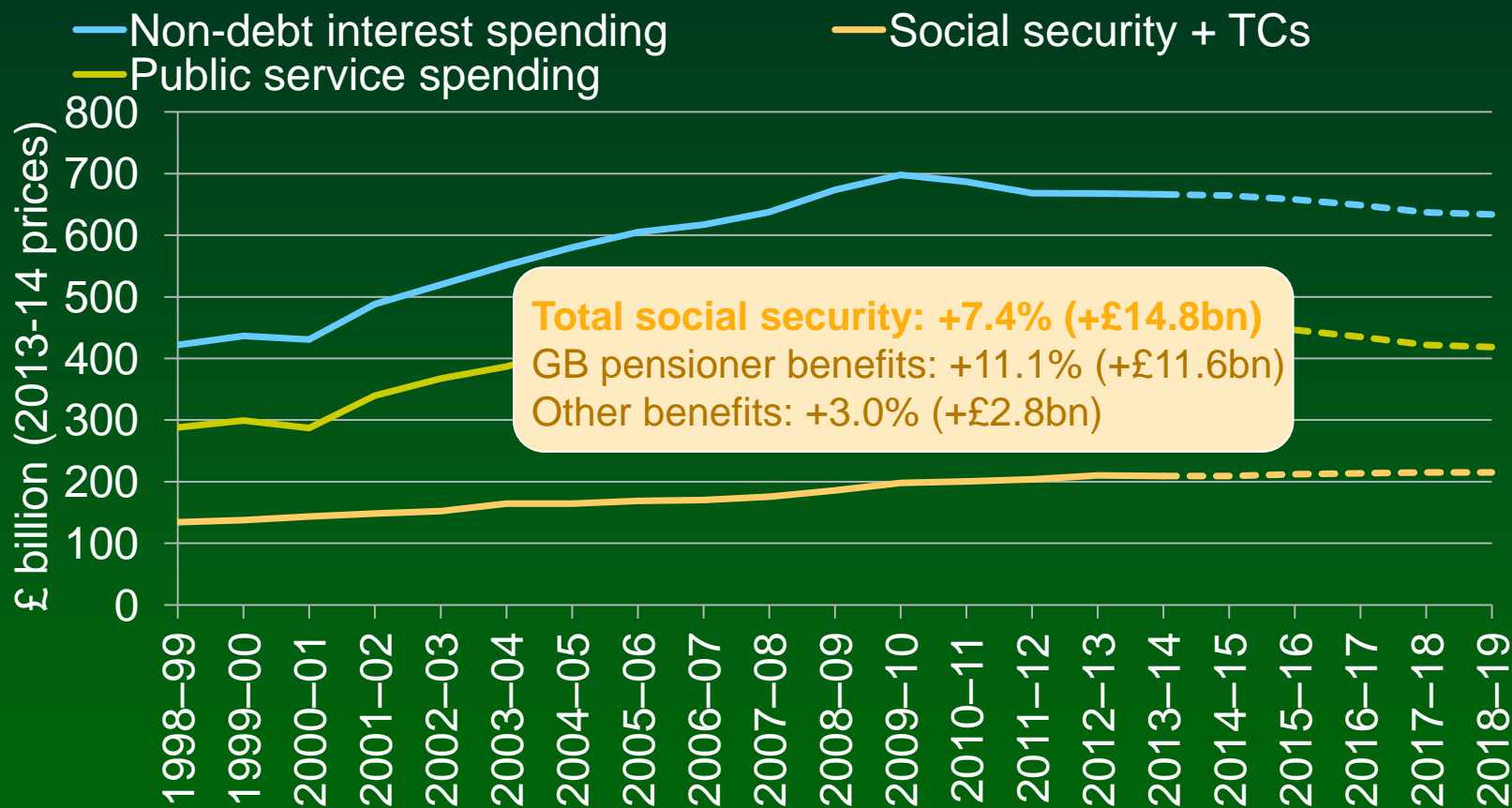
Planned cuts to spending

2010–11 to 2018–19:

Non-debt interest: -7.8% ($-\pounds 53.3\text{bn}$)

Social security: $+7.4\%$ ($+\pounds 14.8\text{bn}$)

Public services: -14.0% ($-\pounds 68.1\text{bn}$)



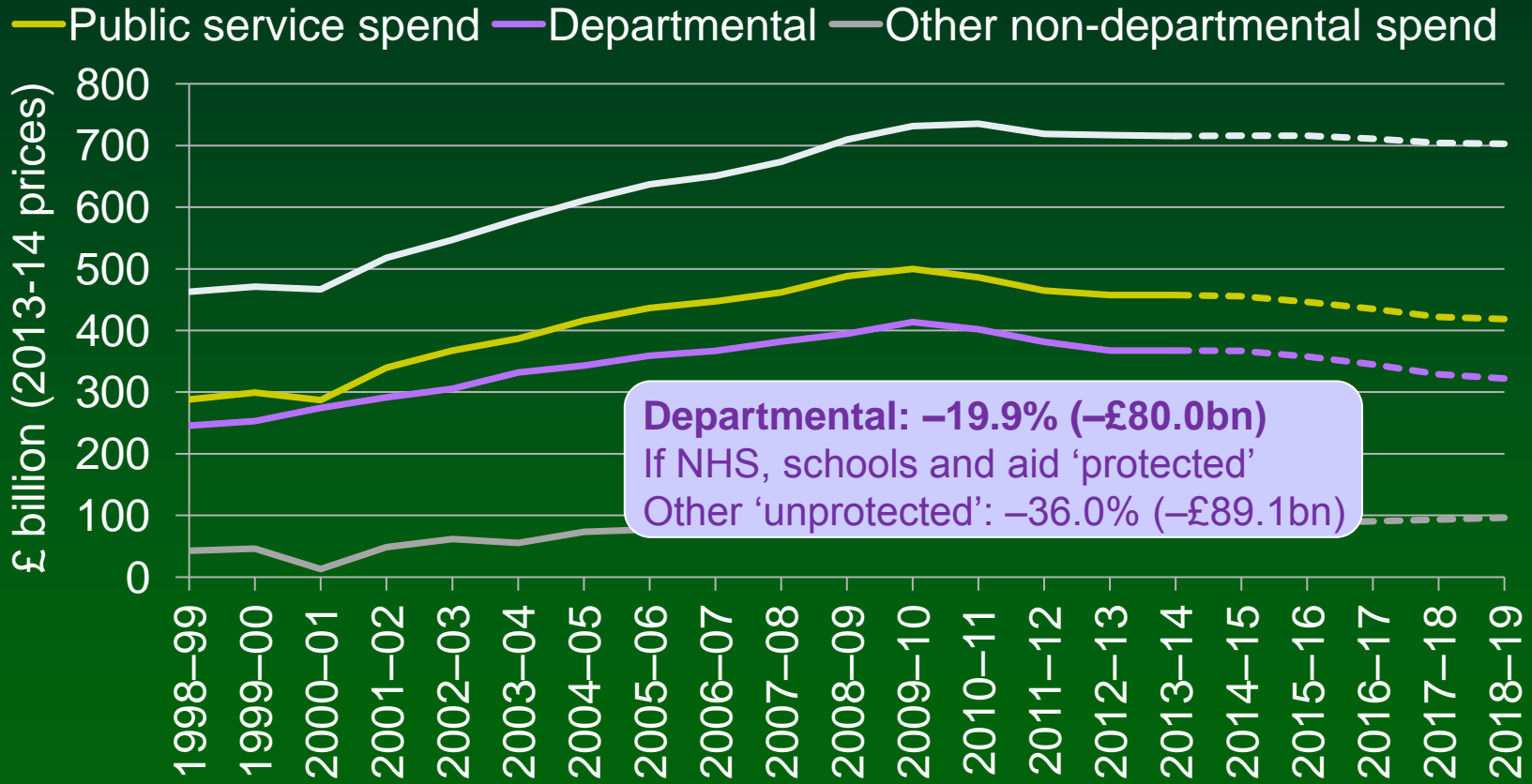
Source: Chapter 2 of *IFS Green Budget: February 2014*. Additional authors' calculations using data from HM Treasury, Office for Budget Responsibility and DWP 2014 benefit expenditure tables.



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Planned cuts to spending

2010–11 to 2018–19:
Public services: -14.0% (-£68.1bn)
 Departmental: -19.9% (-£80.0bn)
 Other non-dept.: +14.1% (+£11.9bn)



Source: Chapter 2 of *IFS Green Budget: February 2014*. Additional authors' calculations using data from HM Treasury, Office for Budget Responsibility and DWP 2014 benefit expenditure tables.

This would take public service spending to an historic low



Will this be acceptable to voters or will higher taxes, lower social security spending or higher borrowing be preferred?

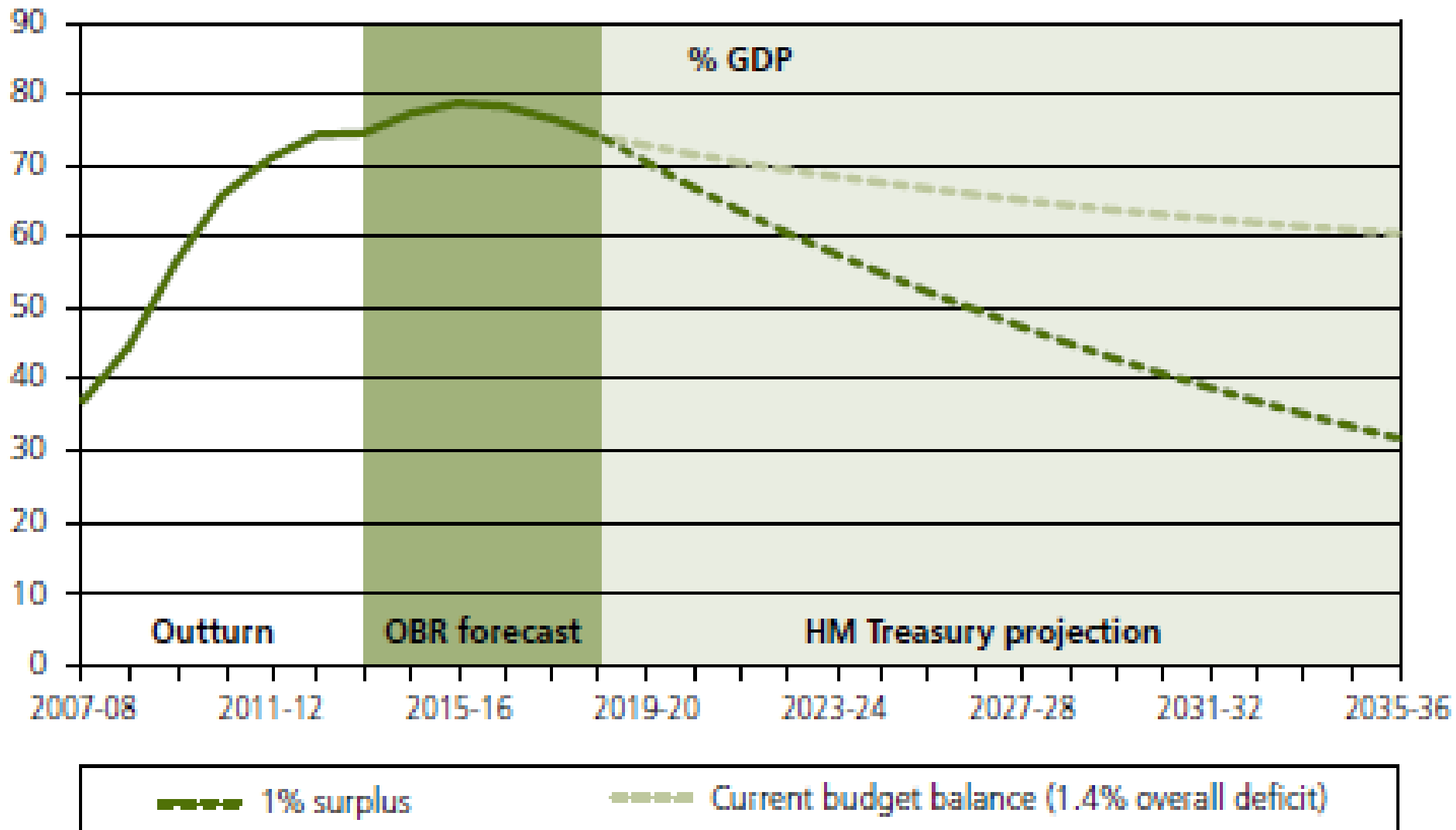
Government has suggested cutting social security further

- £12 billion cut mooted
 - This would reduce departmental spending cuts between 2015–16 and 2018–19 to the same rate as over 2010–11 to 2015–16
 - Cut of 17% between 2010–11 and 2018–19
 - Unprotected cut by 31%
- £12 billion equivalent to
 - 6% of all social security spending
 - 11% of non-pension spending,
 - 13% of spending on non-pensioners

How might the public finances differ under Labour?

- “The next Labour government will balance the books and deliver a surplus on the current budget and falling national debt in the next Parliament”
 - “How fast we can go will depend on the state of the economy and public finances we inherit”
- Coalition planning £28 billion current budget surplus in 2018–19
- Labour could cut taxes and/or increase day-to-day spending by up to £28 billion and meet their pledge in 2018–19
 - Could mean average departmental spending cuts of 2.4% rather than 10% between 2015-16 and 2018-19
- Trade off between benefits of higher spending/lower tax and higher borrowing and debt

Debt path under different scenarios



Source: Office for National Statistics, Office for Budget Responsibility and HM Treasury.

Leaving four unpleasant options

- Very big additional cuts to public service spending, taking spending to lowest levels since 1948
- Slightly less big cuts on public services, but substantial cuts to social security
- Smaller cuts to spending, but more to do to get debt under control later on
- Substantial tax rises