

Institute for  
Fiscal Studies



## Public finances: two parliaments of pain

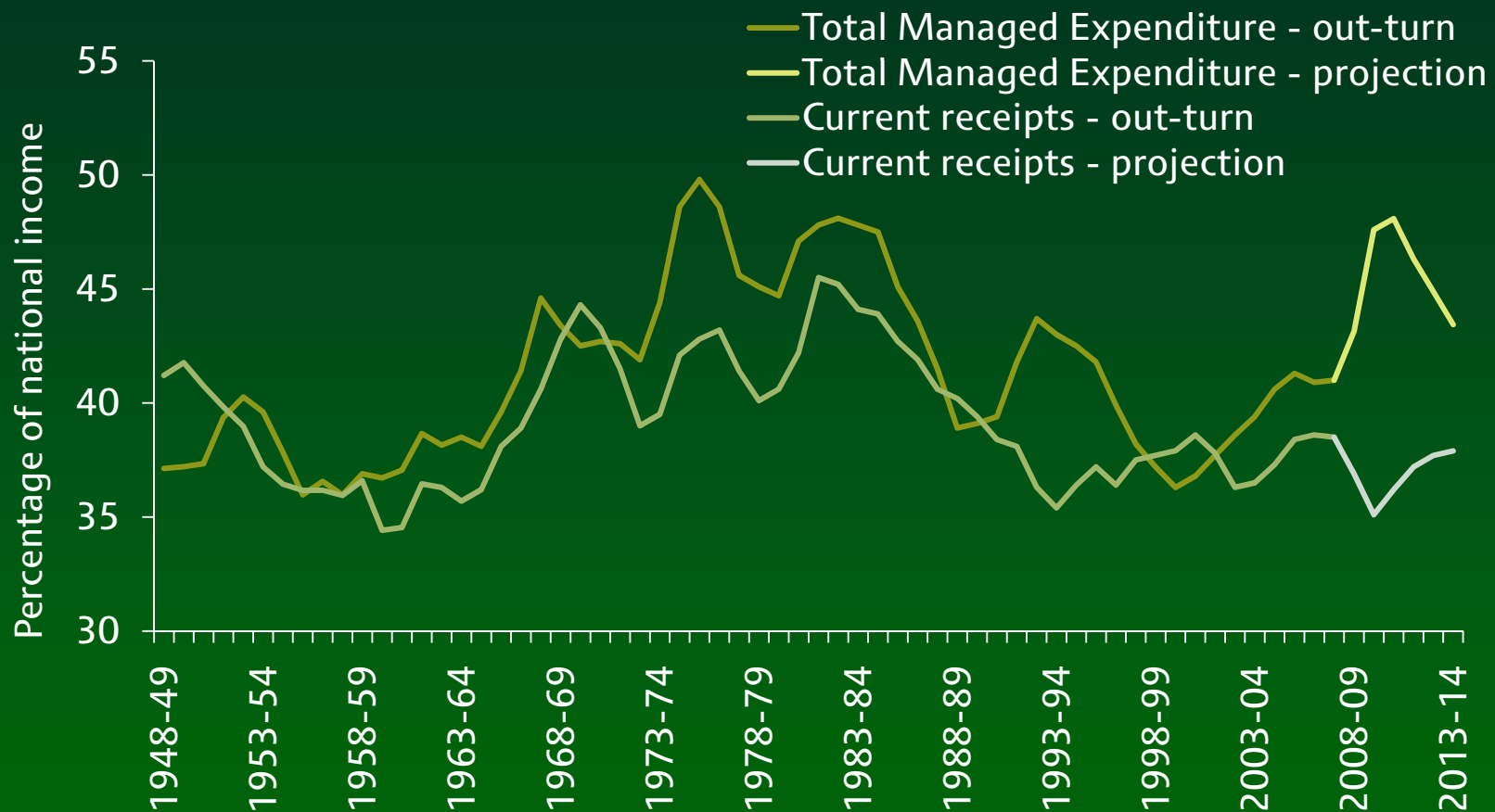
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Carl Emmerson

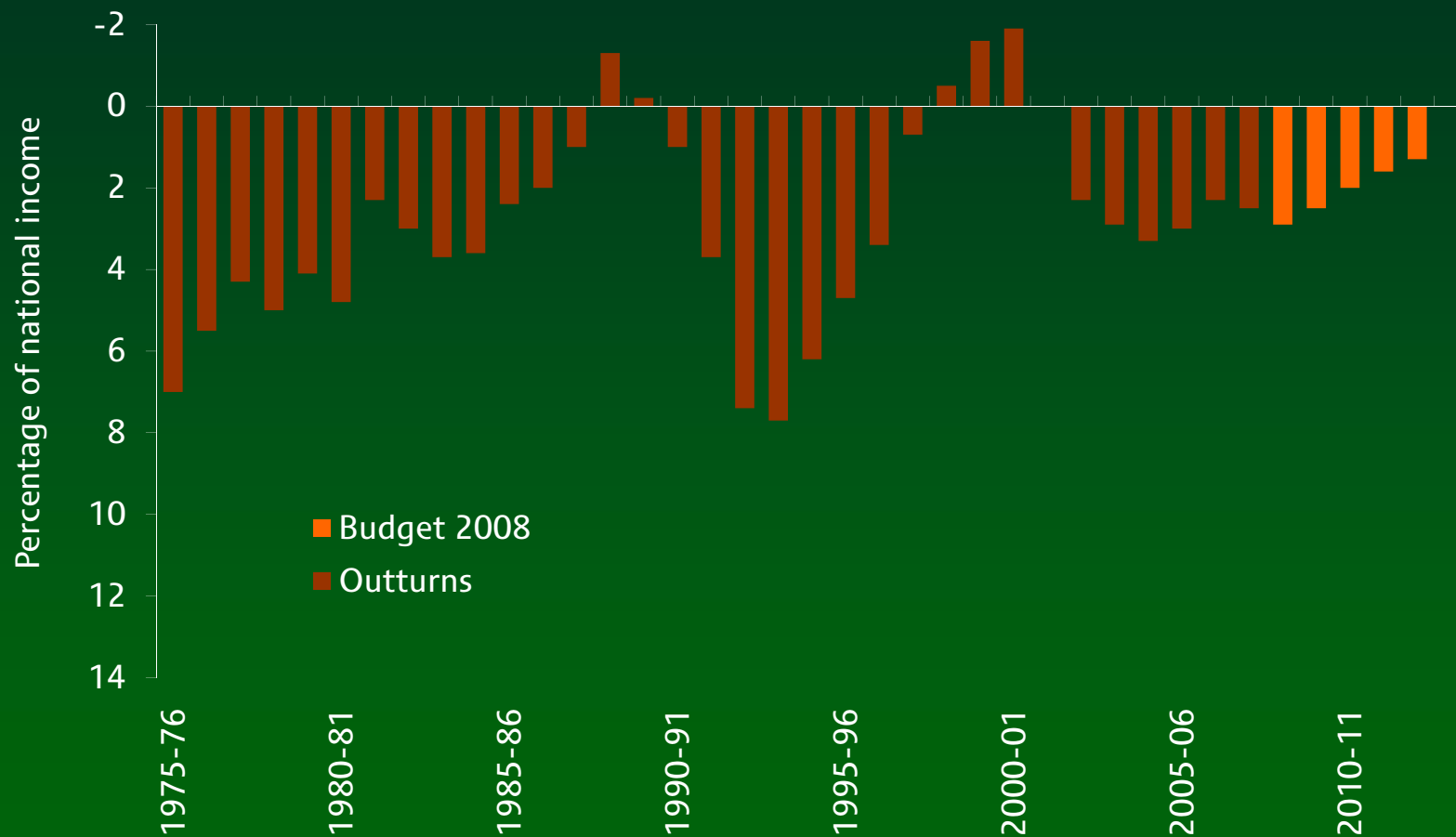
# Summary

- Sharp increase in public spending and fall in tax burden leading to biggest level of borrowing since World War II
  - debt to remain high for a generation
  - burden of debt likely to remain low
- Budget aims to raise 3.7% of national income on top of the 2.6% in the 2008 PBR
  - larger than the gap we forecast earlier this month
- This 6.3% of national income is to be filled by:
  - announced tax rises (10%)
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  - things yet to be announced but to come into force in Parliament after next (50%)

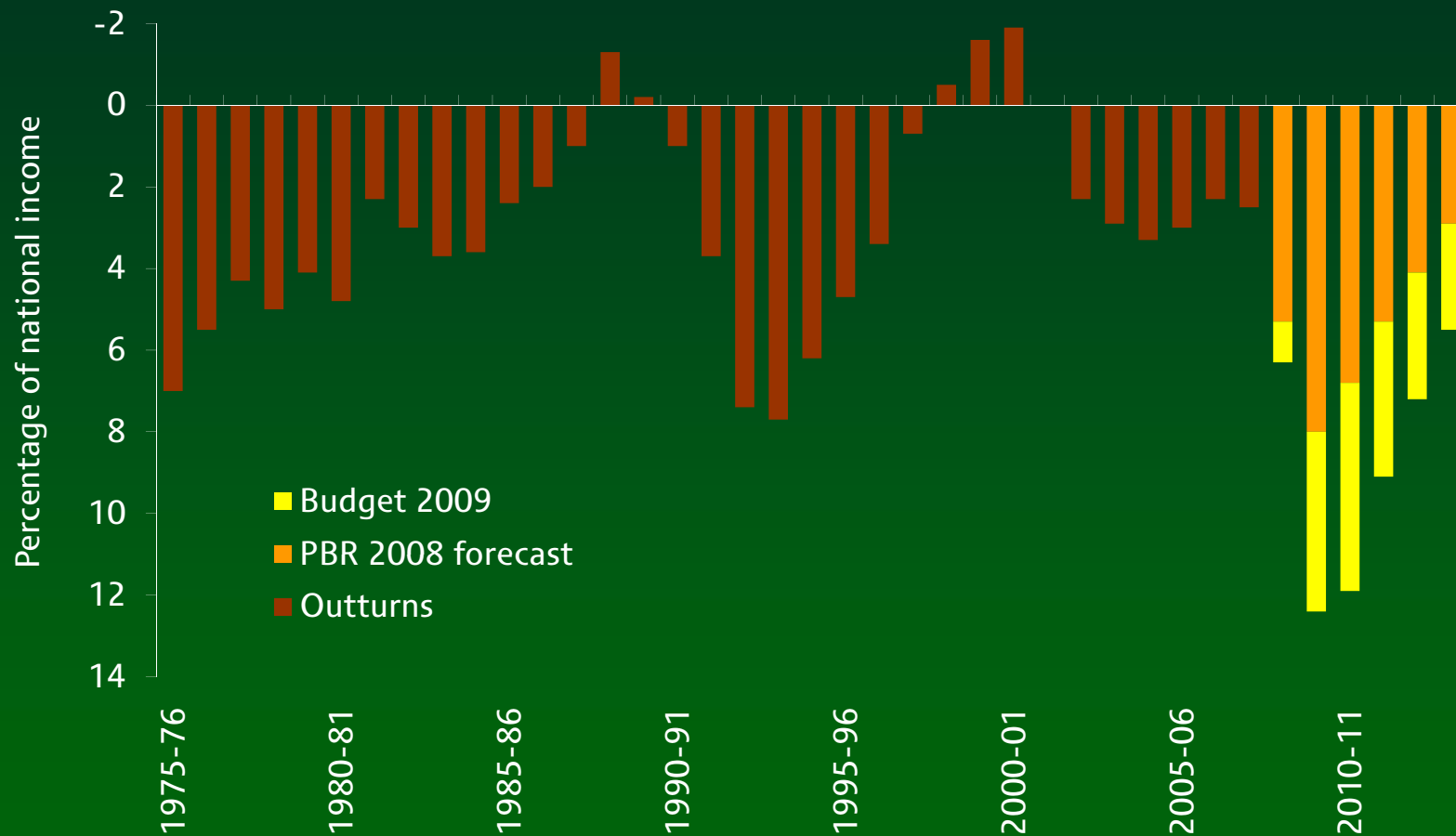
# High spending and a low tax burden...



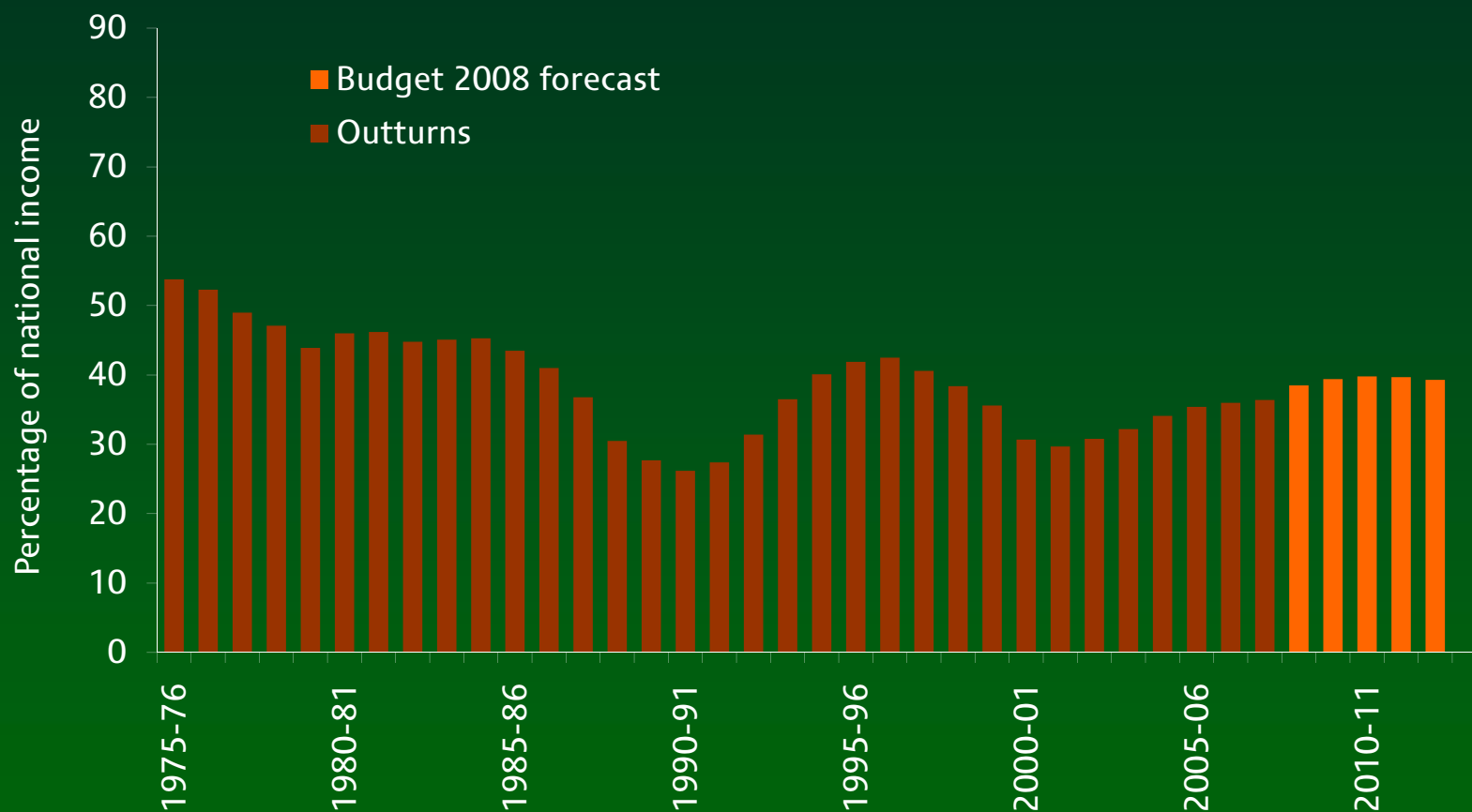
# Public sector borrowing to hit post-war peak



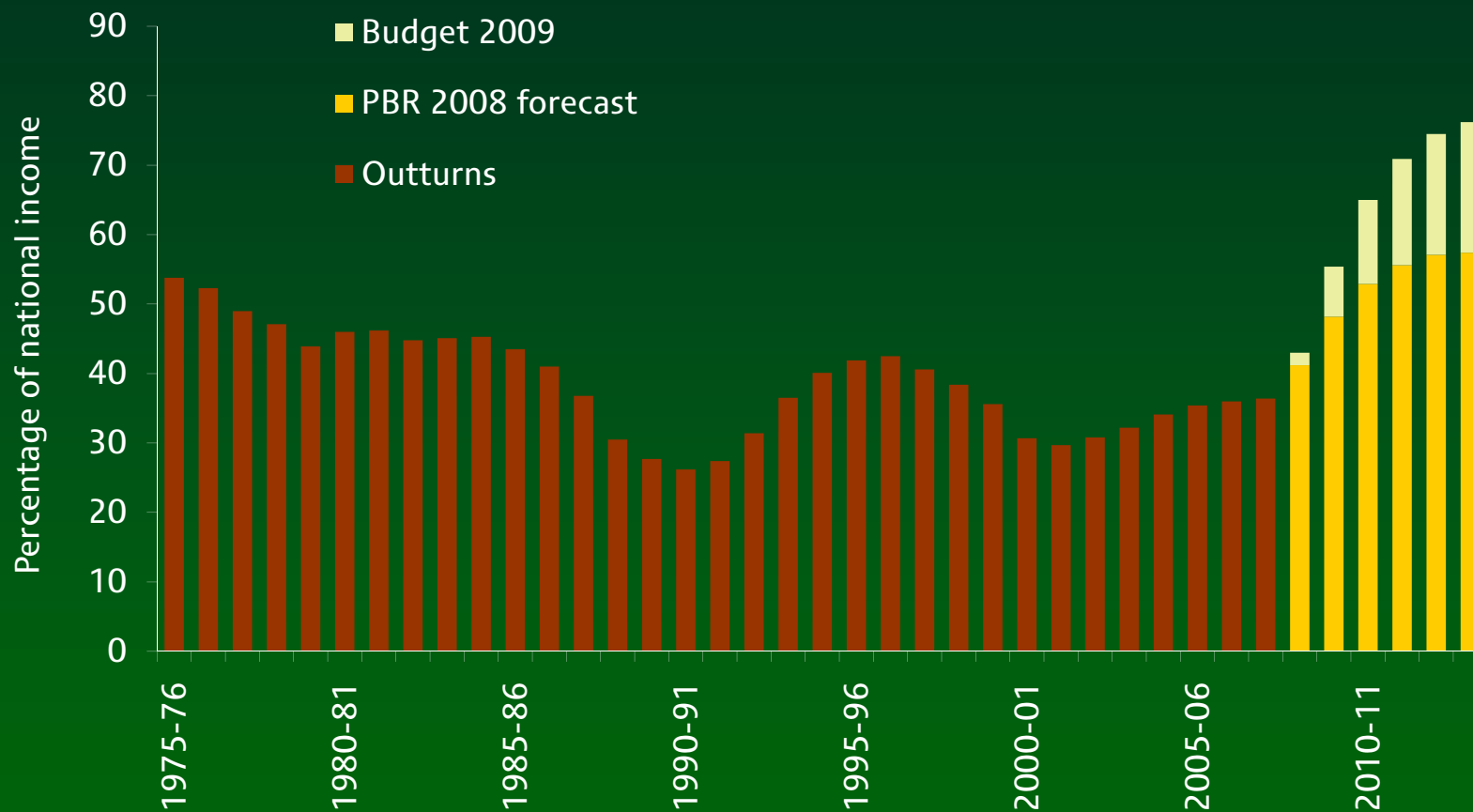
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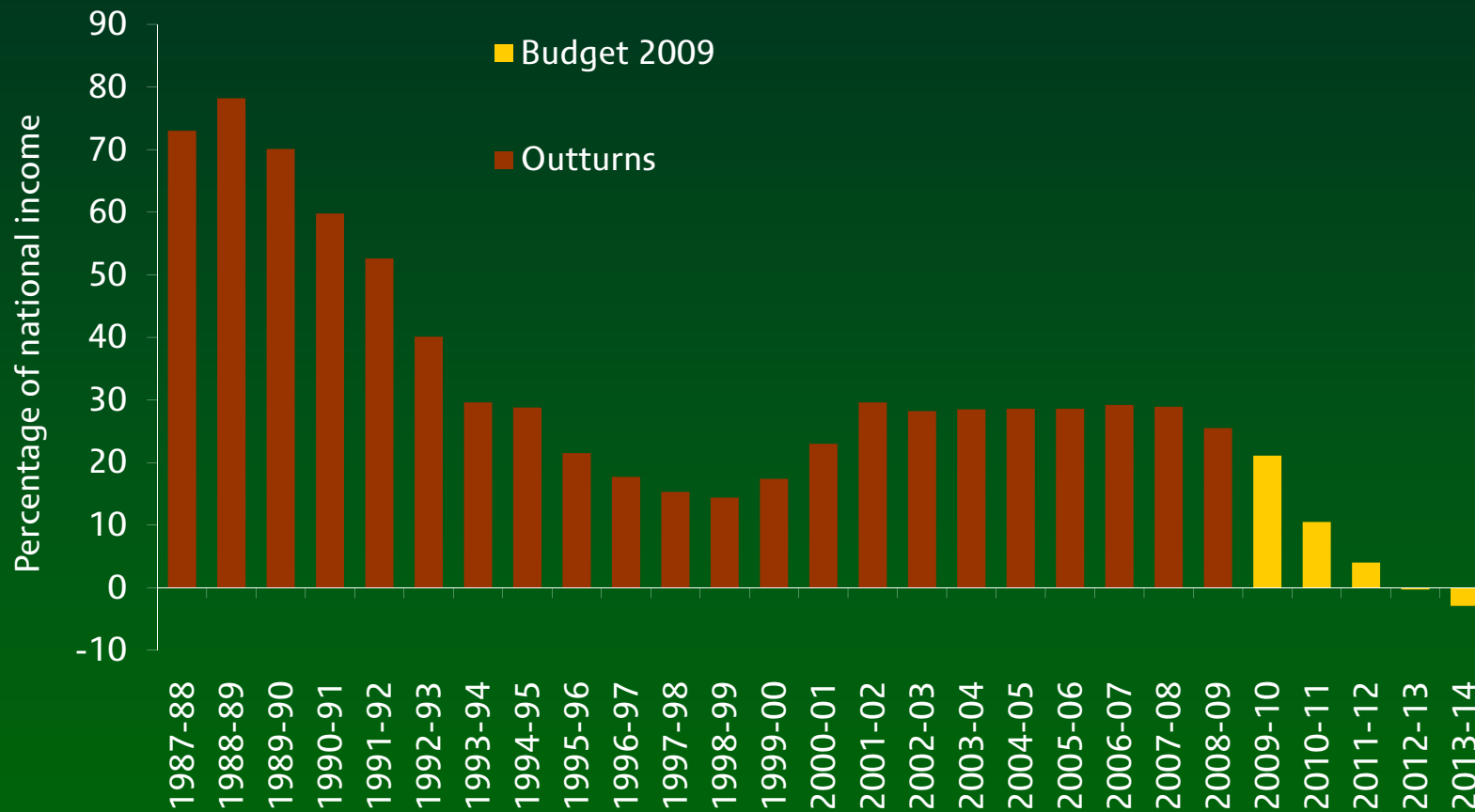
# Public sector net debt to exceed mid-90s peak



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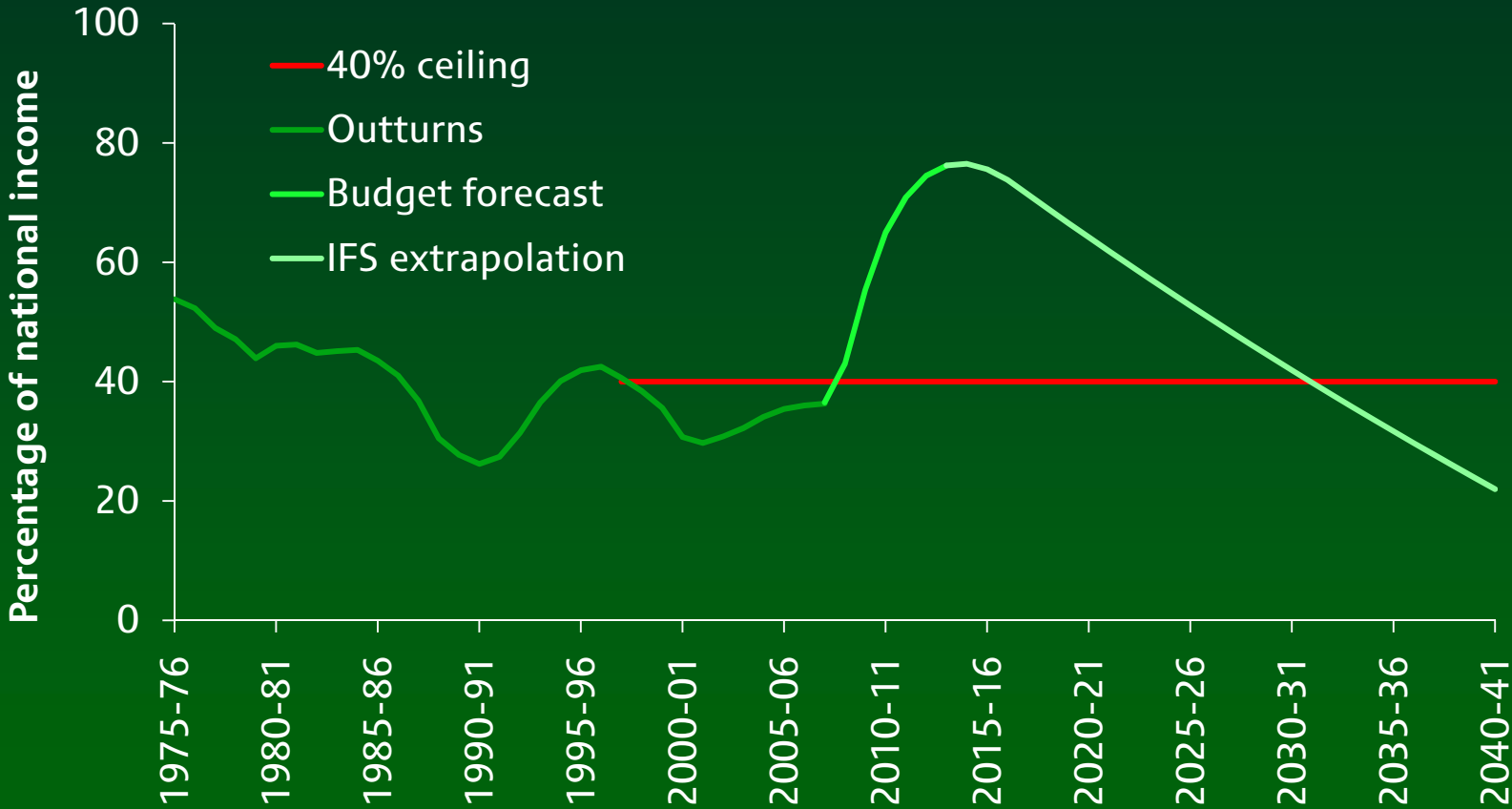


# Falling public sector net worth

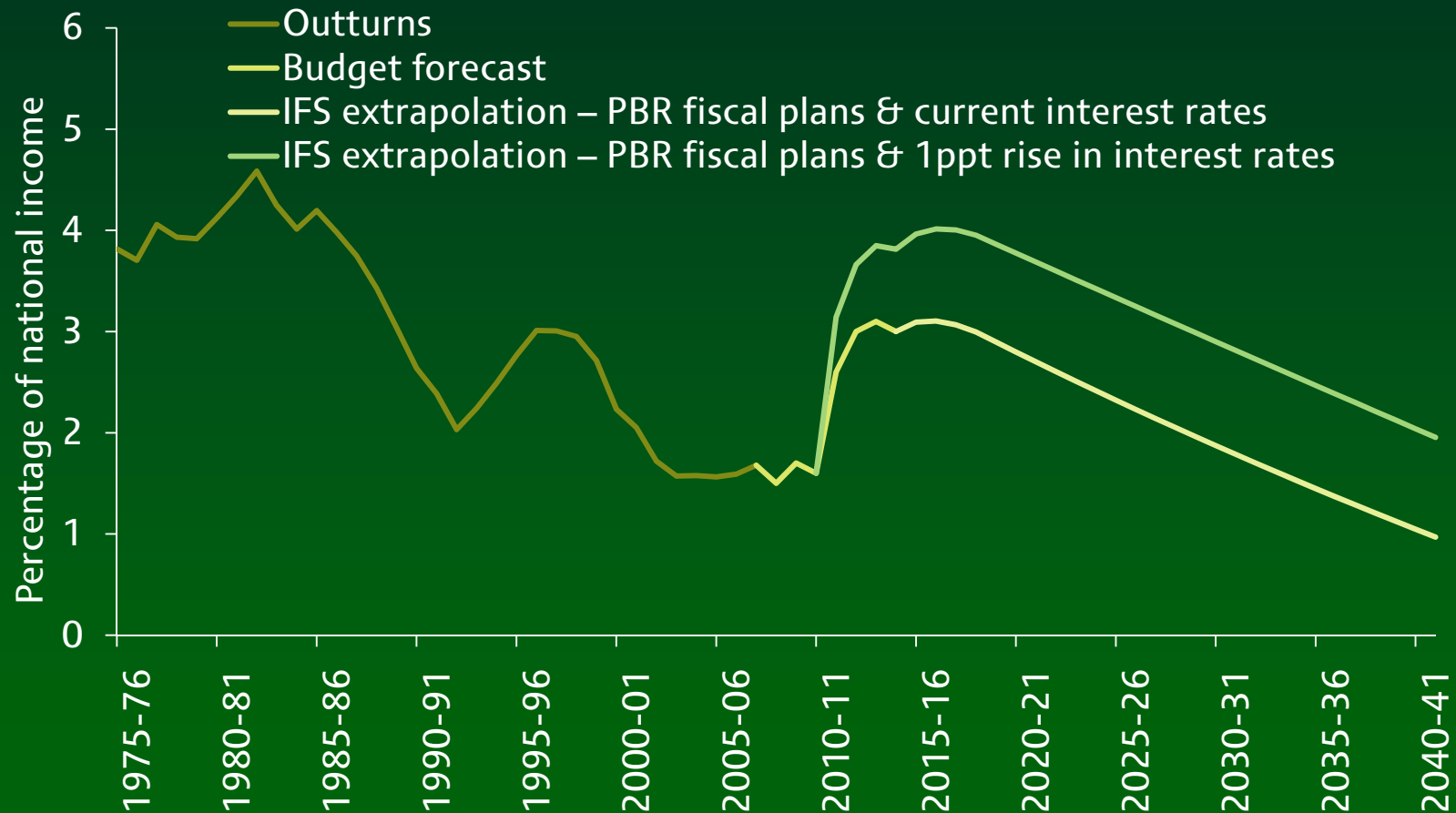




# Debt to remain high for a generation



## But burden of high debt low



# Changes to borrowing since PBR 2008

Public sector net borrowing, £ billion

	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14
<b>PBR 2008</b>	<b>77.6</b>	<b>118</b>	<b>105</b>	<b>87</b>	<b>70</b>	<b>54</b>
Revisions	+12.3	+49.3	+67	+61%	+65	+69%
<b>PBR 2008, no discretionary changes</b>	<b>89.9</b>	<b>168</b>	<b>172</b>	<b>149</b>	<b>135</b>	<b>124</b>
Discretionary changes	0	-47	-4%	-8%	-17%	-26%
<b>Budget 2009</b>	<b>90.0</b>	<b>175</b>	<b>173</b>	<b>140</b>	<b>118</b>	<b>97</b>

Sources: HM Treasury; IFS calculations.

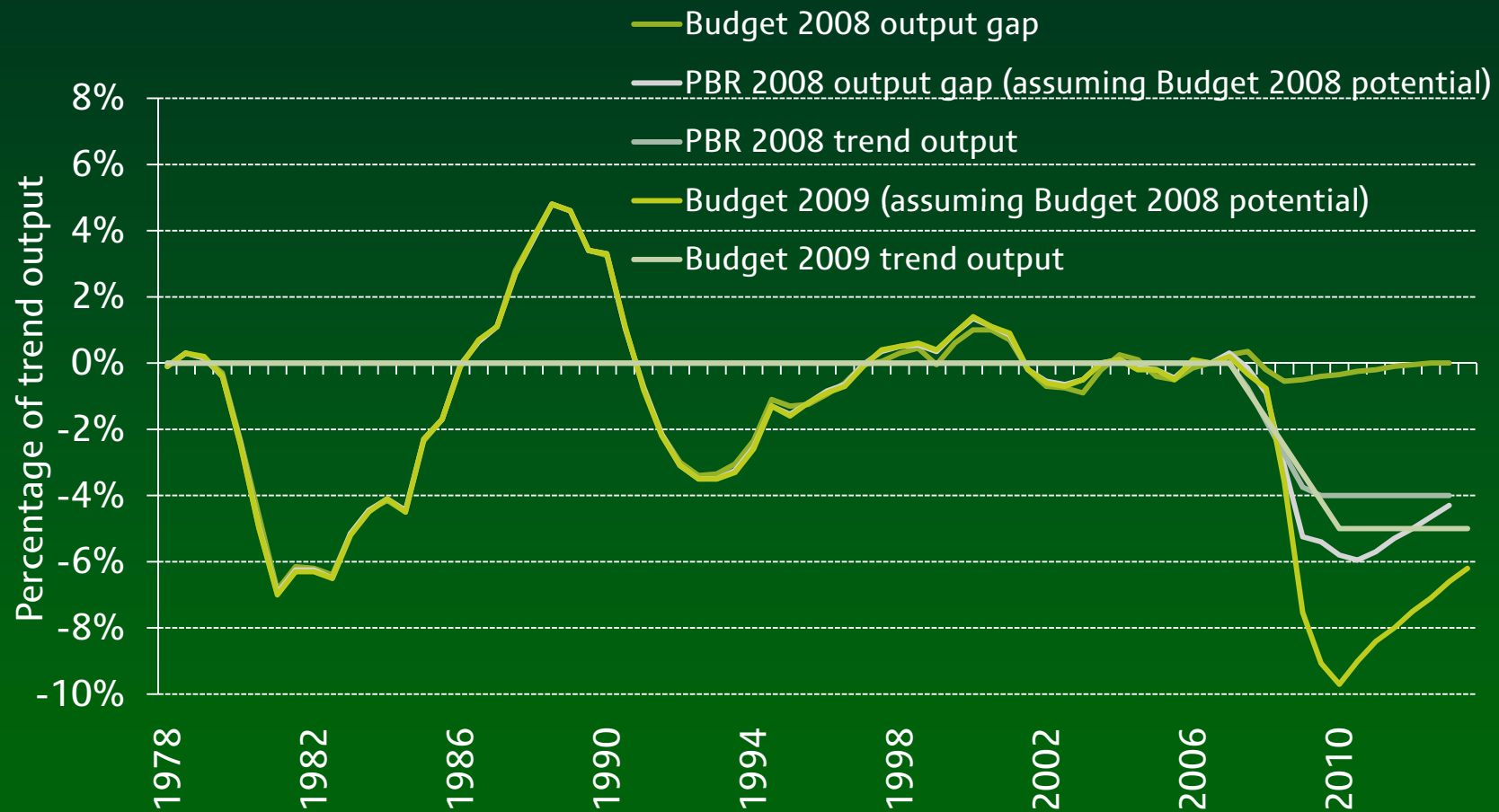
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Revisions	+12.3	+49.5	+67	+61½	+65	+69½
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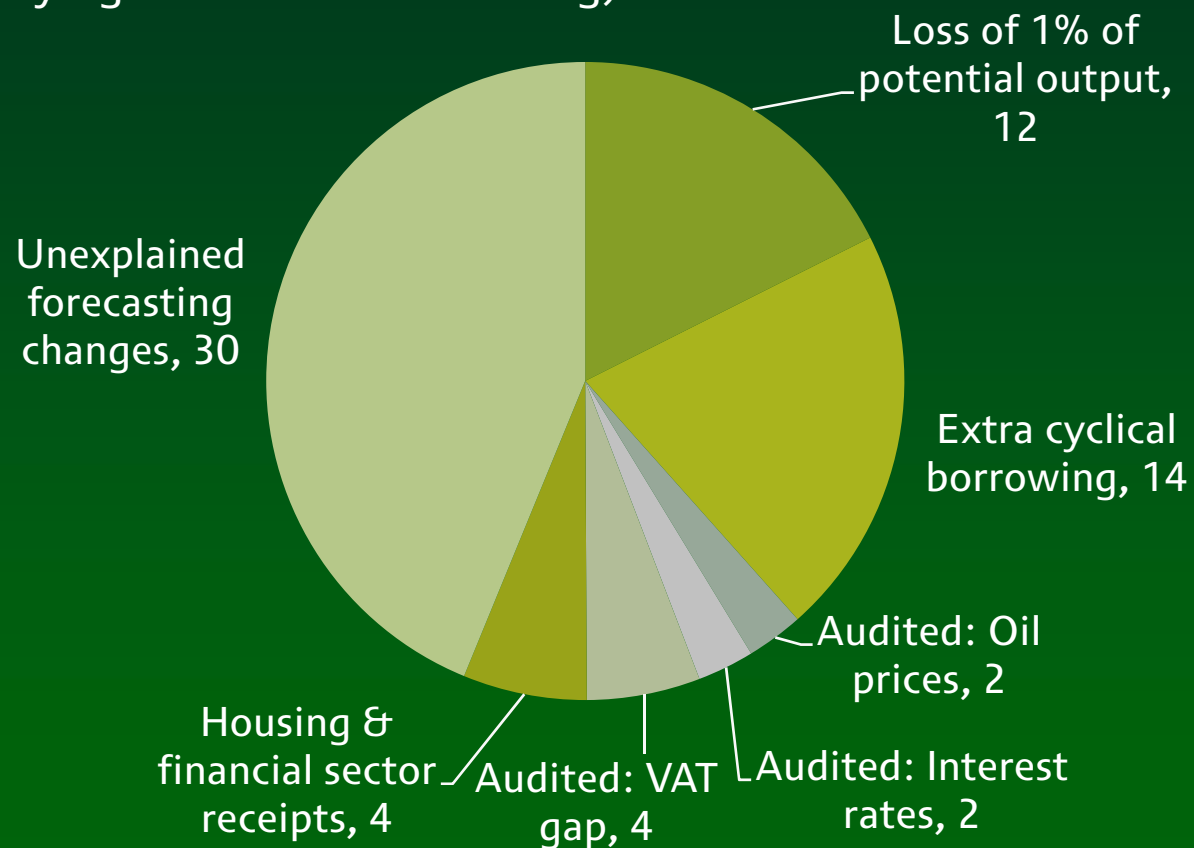
Sources: HM Treasury; IFS calculations.

# Bigger permanent hit and a deeper recession



# Why the large downwards revision to borrowing?

Underlying revisions to borrowing, 2013–14



## Changes to borrowing since PBR 2008

Public sector net borrowing, £ billion

	2008–09	2009–10	2010–11	2011–12	2012–13	2013–14
<b>PBR 2008</b>	<b>77.6</b>	<b>118</b>	<b>105</b>	<b>87</b>	<b>70</b>	<b>54</b>
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<b>PBR 2008, no discretionary changes</b>	<b>89.9</b>	<b>168</b>	<b>172</b>	<b>149</b>	<b>135</b>	<b>124</b>
Discretionary changes	0	+7	+½	–8½	–17½	–26½
<b>Budget 2009</b>	<b>90.0</b>	<b>175</b>	<b>173</b>	<b>140</b>	<b>118</b>	<b>97</b>

Sources: HM Treasury; IFS calculations.

## Measures: giveaway then takeaway

	£ billion				
	2009–10	2010–11	2011–12	2012–13	2013–14
Tax giveaway	-2.6	-0.5	-0.4	-0.4	-0.4
Tax takeaway	+1.0	+3.4	+5.6	+7.6	+8.1
Spending giveaway	-3.6	-3.1	0	0	0
Spending takeaway	+0	+0.2	+3.3	+10.2	+18.8
Net tax increase	-1.6	+2.8	+5.2	+7.3	+7.7
Net spending cut	-3.6	-2.9	+3.3	+10.2	+18.8
<b>Net takeaway</b>	<b>-7.6</b>	<b>-0.6</b>	<b>+8.5</b>	<b>+17.5</b>	<b>+26.5</b>

Sources: HM Treasury; IFS calculations.

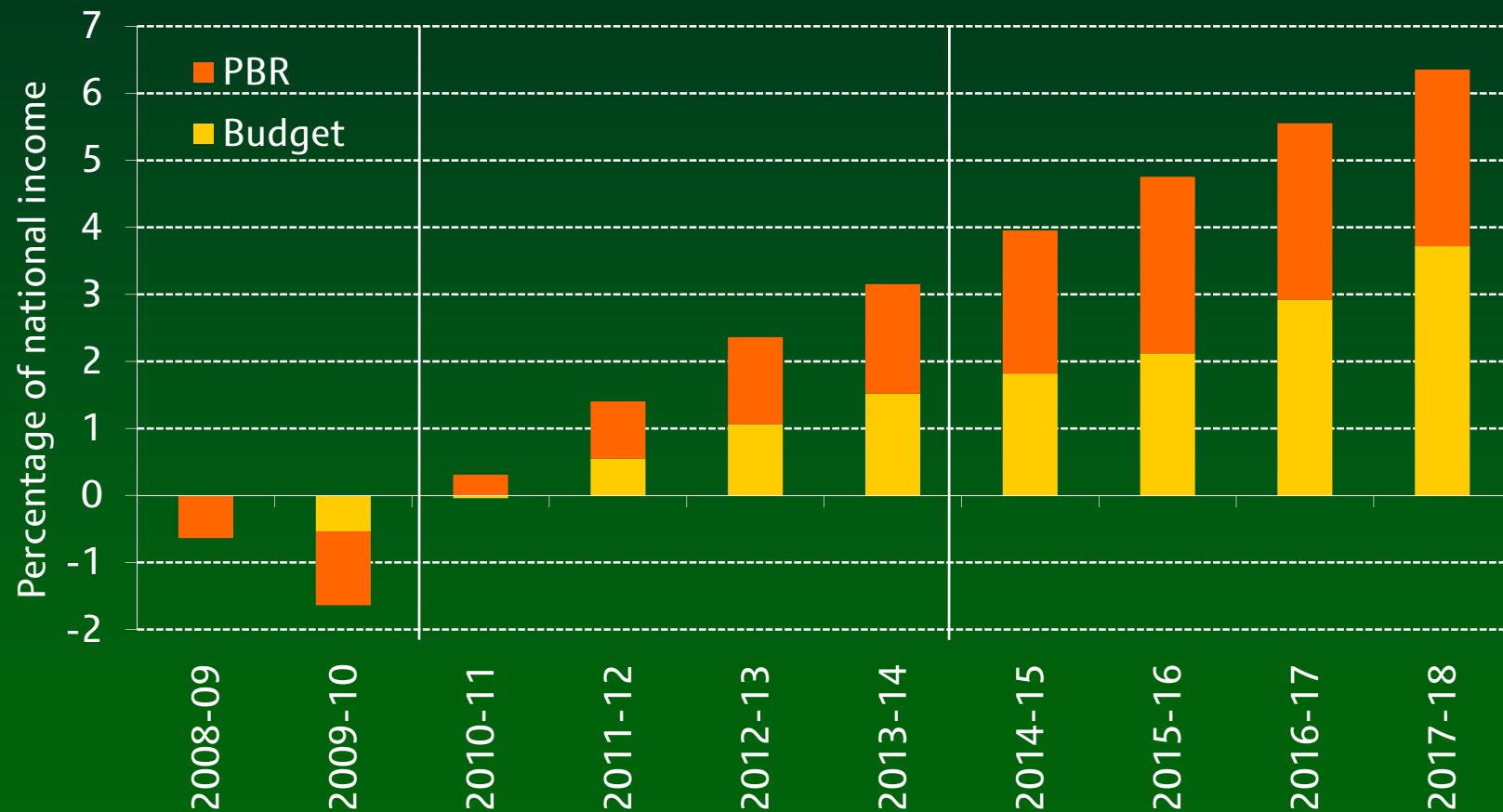


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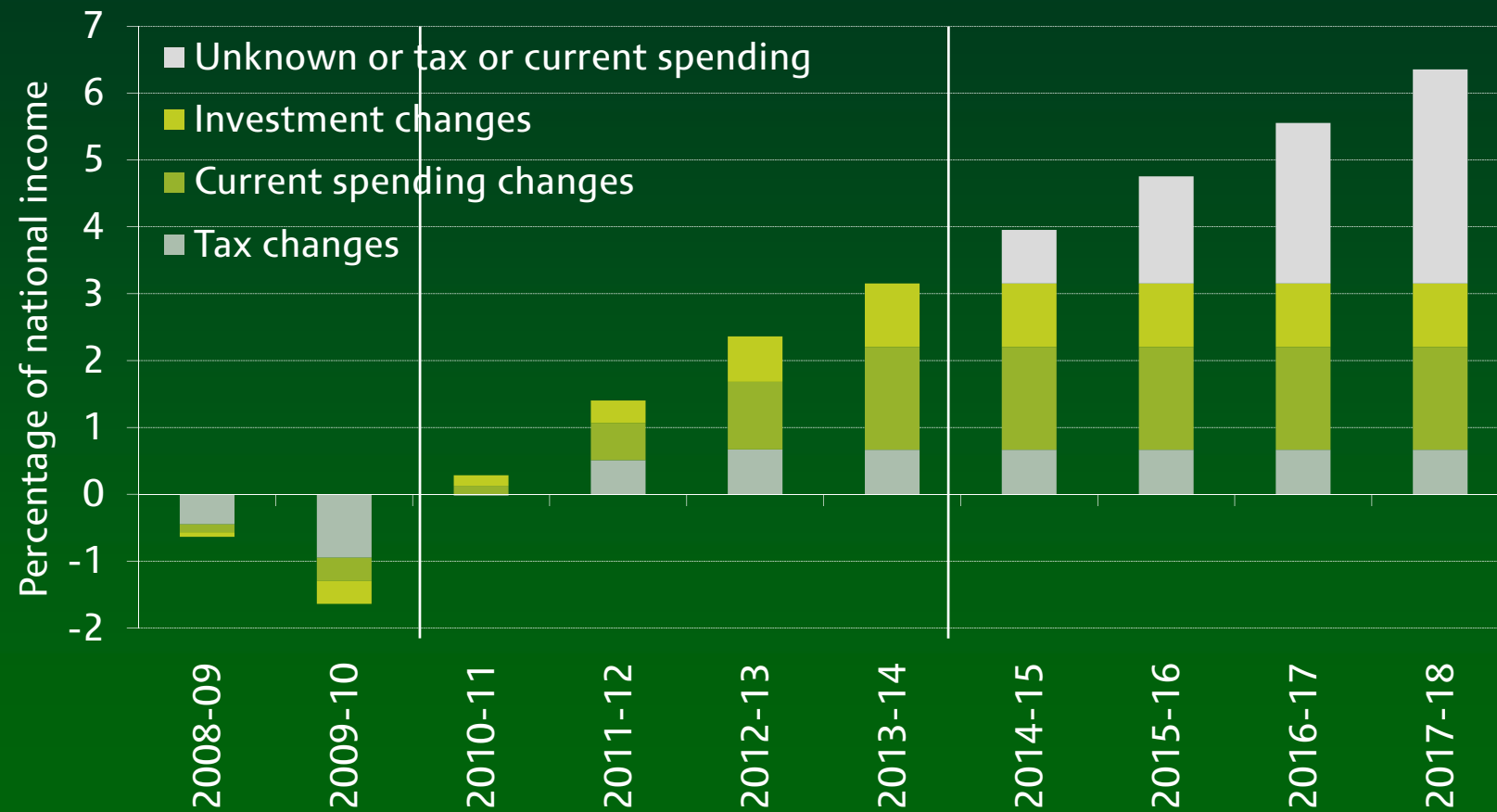
	£ billion				
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Tax giveaway	-2.6	-0.5	-0.4	-0.4	-0.4
Tax takeaway	+1.0	+3.4	+5.6	+7.6	+8.1
Spending giveaway	-6.0	-3.6	0	0	0
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Net tax increase	-1.6	+2.8	+5.2	+7.3	+7.7
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<b>Net takeaway</b>	<b>-7.6</b>	<b>-0.6</b>	<b>+8.5</b>	<b>+17.5</b>	<b>+26.5</b>

Note: Actual numbers may differ due to rounding.  
Sources: HM Treasury; IFS calculations.

# Fiscal tightening: two parliaments of pain



# Fiscal tightening, by type of measure

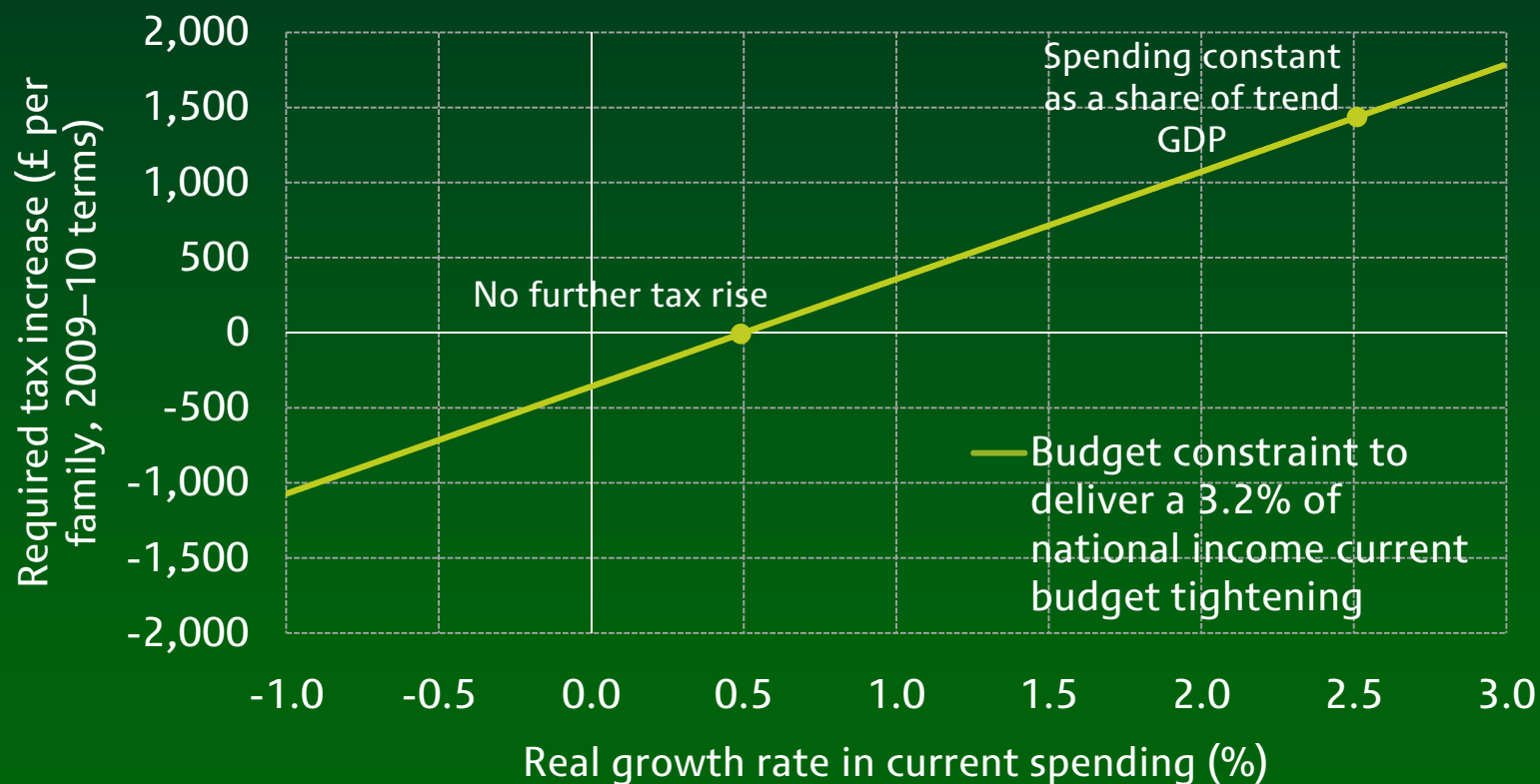


## Fiscal tightening: PBR 2008 & Budget 2009

- Total tightening of 6.4% of national income required
  - £2,840 per family in the UK
- Tax increase of 0.7% of national income
  - £300 per family
- Current spending cut of 1.5% of national income
  - £690 per family
- Investment spending cut of 1.0% of national income
  - £425 per family
- Yet to be announced increase in tax or cut to current spending of 3.2% of national income, to come into force in parliament after next
  - £1,430 per family

# Tough choices for the Parliament after next

Tax and current spending trade off to deliver a 3.2% of national income fiscal tightening between April 2014 to March 2018



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