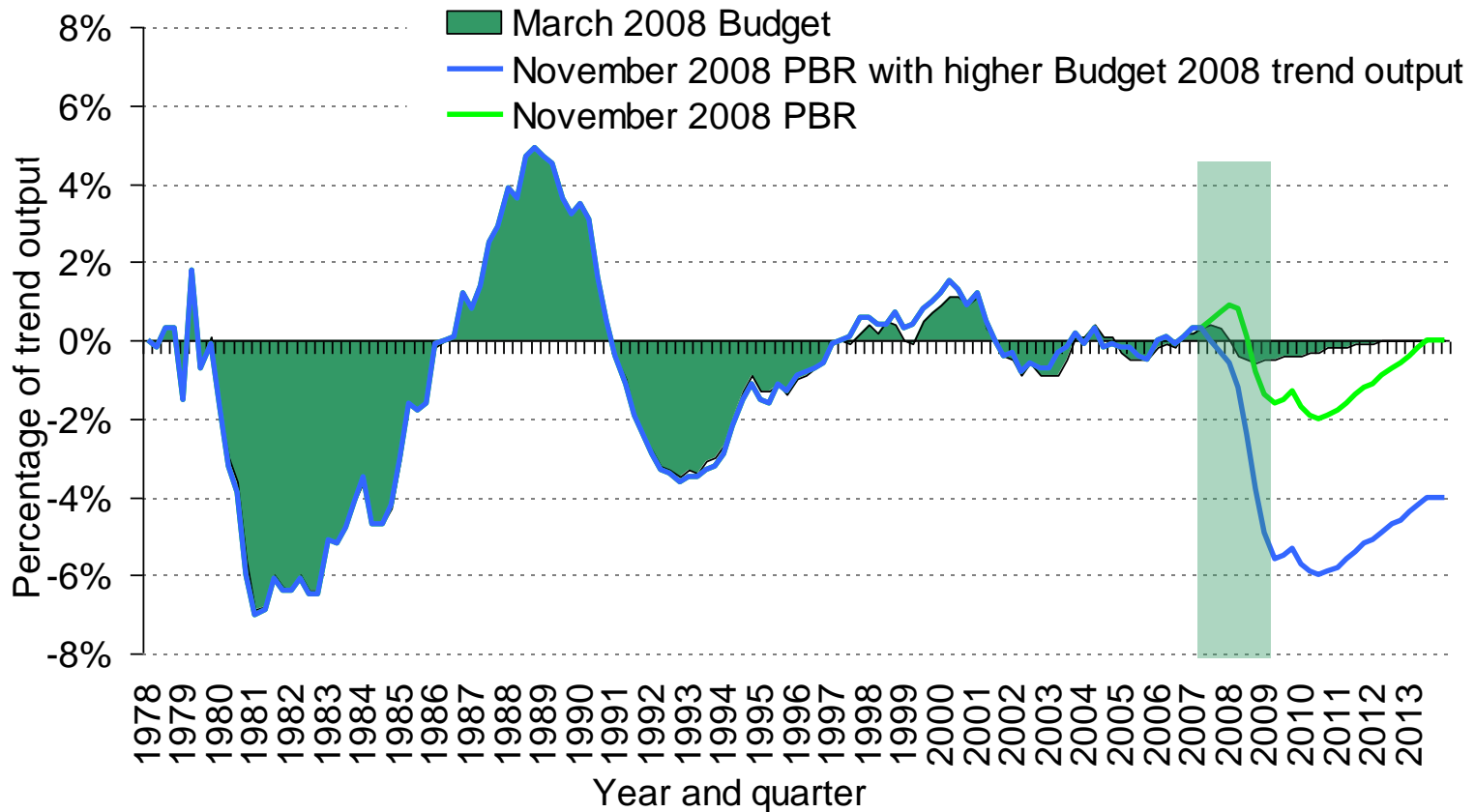


PBR 2008 and the public finances

Carl Emmerson, Institute for Fiscal Studies

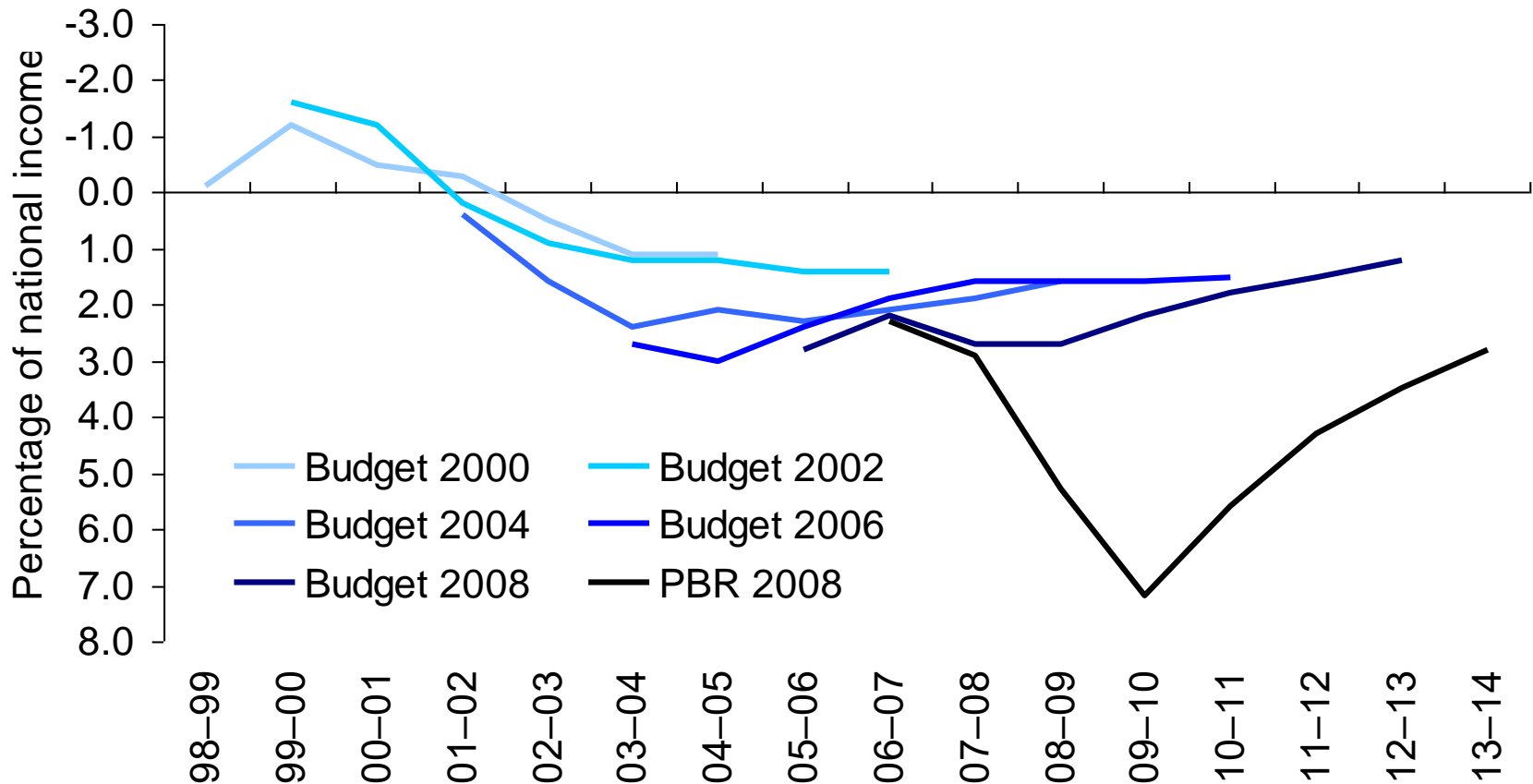
No return to boom and bust?

Output gap since 1978



An ever worsening outlook?

Cyclically-adjusted public sector net borrowing



Forecasting changes since Budget 2008

Public sector net borrowing, £ billion

	2008–09	2009–10	2010–11	2011–12	2012–13
Budget 2008	42.5	38	32	27	23
PBR 2008	77.6	118	105	87	70

Forecasting changes since Budget 2008

Public sector net borrowing, £ billion

	2008–09	2009–10	2010–11	2011–12	2012–13
Budget 2008	42.5	38	32	27	23
Revisions	+25.8	+63½	+77½	+73	+70½
PBR 2008	77.6	118	105	87	70

Forecasting changes since Budget 2008

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Budget 2008	42.5	38	32	27	23
Revisions	+25.8	+63½	+77½	+73	+70½
4% GDP loss	+22.3	+38	+43	+46	+49
Cyclical component	-2.3	+8	+16	+15	+10
Equity prices	+1	+3½	+3½	+3½	+3½
House prices		+7	+7	+7	+7
Other	+5	+8	+7	+1	+2
PBR 2008	77.6	118	105	87	70

Forecasting changes since Budget 2008

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House prices		+7	+7	+7	+7
Other	+5	+8	+7	+1	+2
Discretionary changes	+9.3	+16½	-4½	-14	-22½
PBR 2008	77.6	118	105	87	70

Forecasting changes since Budget 2008

Current budget surplus, £ billion

	2008–09	2009–10	2010–11	2011–12	2012–13
Budget 2008	-9.6	-4	+4	+11	+18
Revisions	-23.3	-61	-78	-75	-72
Discretionary changes	-8.3	-13	+1	+10	+16
PBR 2008	-41.2	-78	-73	-54	-37

Forecasting changes since Budget 2008

Public sector net investment, £ billion

	2008–09	2009–10	2010–11	2011–12	2012–13
Budget 2008	32.9	35	37	38	41
Revisions	+2.5	+2½	–½	–2	–1½
Discretionary changes	+1.0	+3½	–3½	–4	–6½
PBR 2008	36.5	40	33	33	33

Measures: giveaway and then takeaway

£ billion

	2008–09	2009–10	2010–11	2011–12	2012–13
Net takeaway	-9.3	-16.3	+4.8	+14.1	+22.5

Measures: giveaway and then takeaway

£ billion

	2008–09	2009–10	2010–11	2011–12	2012–13
Tax giveaway	–6.9	–13.6			
Tax takeaway	+0.3	+1.2			
Spend giveaway	–2.7	–4.1			
Spend takeaway	0	+0.2			
Lower spend growth	0	0			
Net tax increase	–6.6	–12.4			
Net spending cut	–2.7	–3.9			
Net takeaway	–9.3	–16.3	+4.8	+14.1	+22.5

Measures: giveaway and then takeaway

£ billion

	2008–09	2009–10	2010–11	2011–12	2012–13
Tax giveaway	–6.9	–13.6	–5.5	–6.2	–6.6
Tax takeaway	+0.3	+1.2	+2.2	+9.1	+10.6
Spend giveaway	–2.7	–4.1	–0.7	–0.3	–0.3
Spend takeaway	0	+0.2	+8.8	+5.0	+5.0
Lower spend growth	0	0	0	+6.5	+13.9
Net tax increase	–6.6	–12.4	–3.3	+2.9	+4.0
Net spending cut	–2.7	–3.9	+8.1	+11.2	+18.6
Net takeaway	–9.3	–16.3	+4.8	+14.1	+22.5

Spending cuts

- “The inclusion of a £5.0 billion allowance for Additional Value for Money Savings in 2010–11 Resource DEL”
 - £5bn cut in current departmental spending in 2010–11 intention is that new efficiency savings will ensure no impact on service quality
- “the updating of Department of Health (DH) capital plans to a level consistent with the latest planned spend”
 - £0.3bn increase in DH capital spend over 2008–09 and 2009–10 but with a £1.4bn cut to DH capital spend in 2010–11
- Total spending to grow by 1.1% a year in real terms from April 2011 to March 2014
 - this would reduce total spending by 2.5% of national income over this period
 - £37bn in today’s terms

How big would a £37bn spending cut be?



How big would a £37bn spending cut be?



“The Conservative Party is committed to making cash cuts of £35 billion from Labour's public spending plans – cuts so large they could only be found from cutting deep into front-line public services, including schools, hospitals and the police.”

(Alistair Darling, 17 March 2005)

Protecting investment spending?

“Lesson 5: Avoid a bias against capital investment”

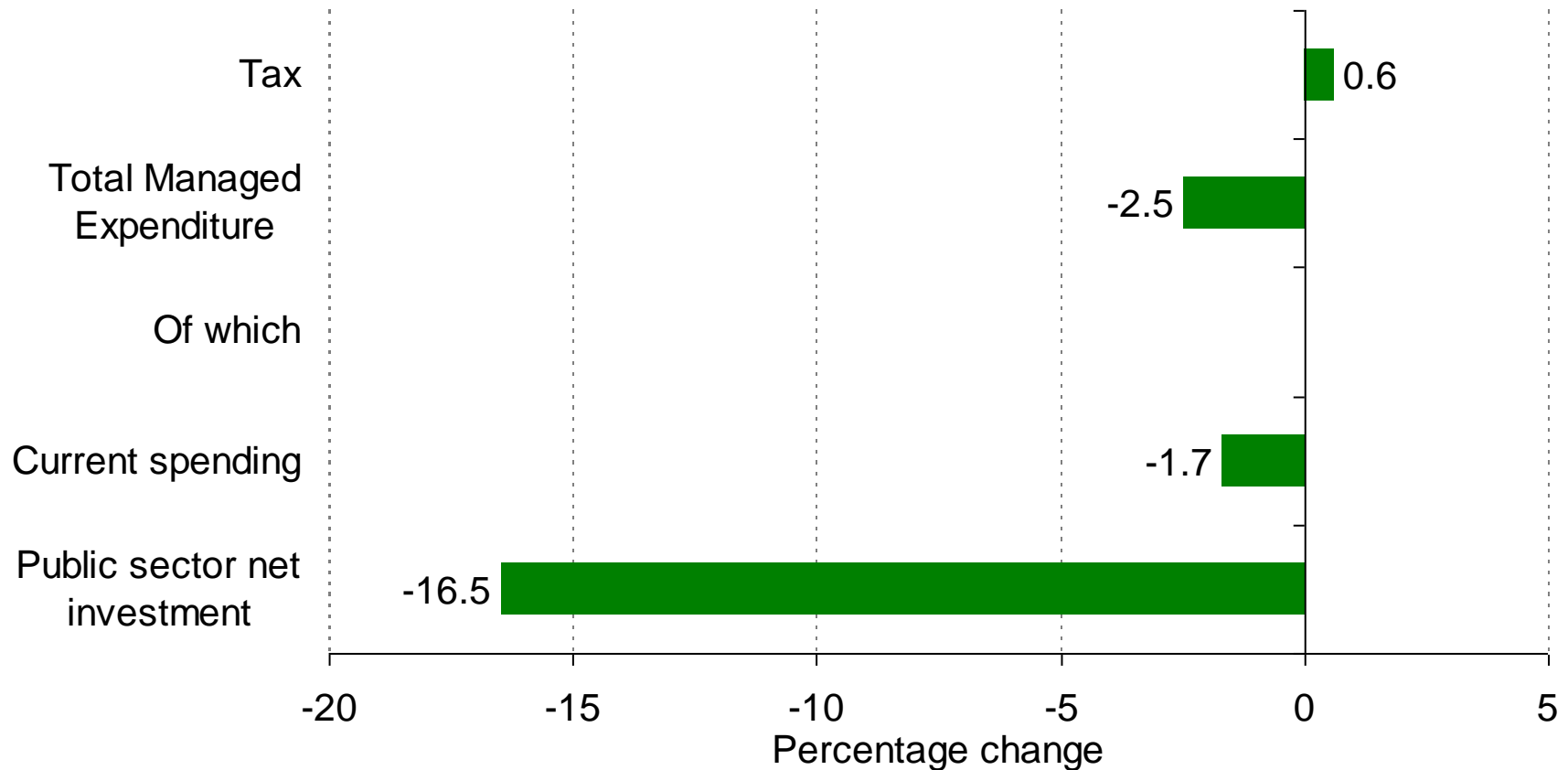
HM Treasury, “Planning sustainable public spending: lessons from previous policy experience”, November 2000

“[The new temporary operational fiscal rule] protects investment by focussing on improving the current budget”

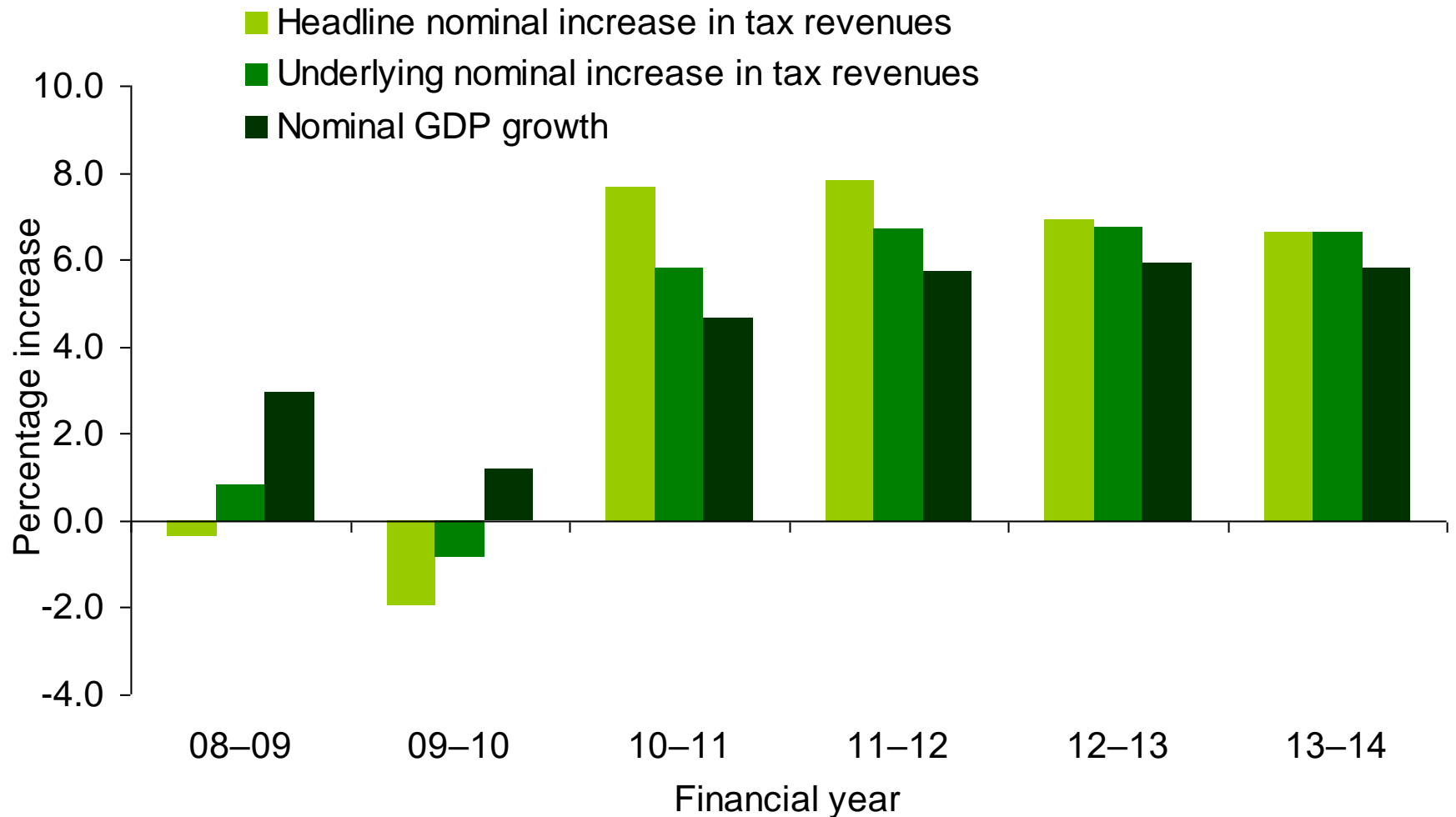
HM Treasury, “The Government’s fiscal framework”, November 2008

Protecting investment spending?

Percentage change in tax and spending in 2012–13 relative to no discretionary Pre-Budget Report measures



Forecast nominal growth in tax revenues



Conclusions

- Sharp deterioration in Treasury's economic forecast
 - decline in economic output forecast to peak at 6% of trend output, with 4% of national income being permanently lost
 - this lost GDP would typically add 2.8% of GDP to borrowing (£40bn)
- Sharp deterioration in forecast for cyclically adjusted borrowing
 - not projected to recover until middle of next decade
 - despite £22½bn discretionary tightening by 2012–13
- Short-term net giveaway
 - largest year 2 tax cut since the Spring 1988 Budget
 - capital spending also brought forward
- Medium-term net takeaway
 - more about a cuts to spending than a net tax increase
 - spending cuts to fall disproportionately on capital spending