Public finances: two parliaments of pain

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%)
  – announced spending cuts (40%)
  – things yet to be announced but to come into force in Parliament after next (50%)
High spending and a low tax burden...

Source: HM Treasury.
Public sector borrowing to hit post-war peak

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Note: Excludes unrealised losses on financial interventions.
Source: HM Treasury.
Public sector borrowing to hit post-war peak

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Source: HM Treasury.
Public sector net debt to exceed mid-90s peak

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Public sector net debt to exceed mid-90s peak

Note: Excludes unrealised losses on financial interventions.
Source: HM Treasury.
Falling public sector net worth

Source: HM Treasury.

Note: Excludes unrealised losses on financial interventions.
Debt to remain high for a generation

- 40% ceiling
- Outturns
- Budget forecast
- IFS extrapolation

Note: Excludes unrealised losses on financial interventions.
Sources: HM Treasury; IFS calculations.
But burden of high debt low

- Outturns
- Budget forecast
- IFS extrapolation – PBR fiscal plans & current interest rates
- IFS extrapolation – PBR fiscal plans & 1ppt rise in interest rates

Note: Excludes unrealised losses on financial interventions.
Sources: HM Treasury; IFS calculations.
## Changes to borrowing since PBR 2008

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Sources: HM Treasury; IFS calculations.
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Sources: HM Treasury; IFS calculations.
Bigger permanent hit and a deeper recession

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Why the large downwards revision to borrowing?

Underlying revisions to borrowing, 2013–14

- Loss of 1% of potential output, 12
- Unexplained forecasting changes, 30
- Extra cyclical borrowing, 14
- Audited: Oil prices, 2
- Audited: VAT gap, 4
- Audited: Interest rates, 2
- Housing & financial sector receipts, 4

Sources: HM Treasury; IFS calculations.
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# Measures: giveaway then takeaway

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<td>Tax giveaway</td>
<td>–2.6</td>
<td>–0.5</td>
<td>–0.4</td>
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<td>Tax takeaway</td>
<td>+1.0</td>
<td>+3.4</td>
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<tr>
<td>Spending giveaway</td>
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<td>+0.2</td>
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<td>+10.2</td>
<td>+18.8</td>
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<td>Net tax increase</td>
<td>–1.6</td>
<td>+2.8</td>
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Note: Actual numbers may differ due to rounding.
Sources: HM Treasury; IFS calculations.
Fiscal tightening: two parliaments of pain

Sources: HM Treasury; IFS calculations.
Fiscal tightening, by type of measure

Sources: HM Treasury; IFS calculations.
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

- No further tax rise
- Budget constraint to deliver a 3.2% of national income current budget tightening

Spending constant as a share of trend GDP

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