Fiscal tightening: why and how?

Robert Chote, Rowena Crawford, Carl Emmerson and Gemma Tetlow
Fiscal tightening: why and how?

• Disease:
  – permanent hit to public finances from financial crisis estimated by PBR 2009 at £73 billion a year
Disease: impact on borrowing
PSNB excluding impact of policies announced since Budget 2008

Damage = 5.2% of GDP (£73bn)

Notes and sources: see Figure 2.1 of the February 2010 IFS Green Budget.
Disease: impact on debt

PSND excluding impact of policies announced since Budget 2008

Notes and sources: see Figure 2.2 of the February 2010 IFS Green Budget.
Fiscal tightening: why and how?

- **Disease:**
  - permanent hit to public finances from financial crisis estimated by PBR 2009 at £73 billion a year

- **Cure:**
  - tax rises and spending cuts worth £77 billion by 2017–18
  - tax rises largely fall on the highest income 2%
  - borrowing back to pre-crisis levels, debt high for a generation
Cure: two parliaments of pain

Reduction in borrowing from policies announced since Budget 2008

Notes and sources: see Figure 2.5 of the February 2010 IFS Green Budget.
All in this together?

Average losses from tax increases announced since Budget 2008

Income decile group (excluding those with incomes ≥ £100,000 a year)

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Notes and sources: Analysis by James Browne and David Phillips, see Box 2.1 of the February 2010 IFS Green Budget for more details.
All in this together?

Average losses from tax increases announced since Budget 2008

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Increasing numbers to face higher income tax rates

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<thead>
<tr>
<th>Income</th>
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<tbody>
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<td>2011–12</td>
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Cure: two parliaments of pain
Reduction in borrowing from policies announced since Budget 2008

Tax or current spending
Investment
Current spending
Tax

1/3 tax rises,
2/3 spending cuts

Notes and sources: see Figure 2.5 of the February 2010 IFS Green Budget.
Cure: two parliaments of pain

Reduction in borrowing from policies announced since Budget 2008

At least £20bn of measures for Parliament after next

Largest single Year tightening

Notes and sources: see Figure 2.5 of the February 2010 IFS Green Budget.
Before & after the cure: debt

Notes and sources: see Figure 2.7 of the February 2010 IFS Green Budget.
What composition of tightening?

Notes and sources: see Figure 2.13 of the February 2010 IFS Green Budget.
What composition of tightening?

(1) All tightening post 2015–16 from further tax raising measures

TME

Revenues

Notes and sources: see Figure 2.13 of the February 2010 IFS Green Budget.
What composition of tightening?

(2) All tightening post 2015–16 from deeper cuts to spending

Notes and sources: see Figure 2.13 of the February 2010 IFS Green Budget.
What composition of tightening?

(3) Tightening post 2015–16 ⅓ tax increases and ⅔ spending cuts
Fiscal tightening: why and how?

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• Cure:
  – tax rises and spending cuts worth £77 billion by 2017–18
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  – borrowing back to pre-crisis levels, debt high for a generation

• Higher debt means greater exposure to risk of borrowing costs rising
  – could be reduced by tightening faster
Debt interest payments

Notes and sources: see Figure 2.17 of the February 2010 IFS Green Budget.
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• We interpret Conservatives’ proposed fiscal target as requiring £15 billion further tightening by 2015–16
  – under current policy: £11 billion spending cut and £5 billion tax rise?
  – pain deferred until 2017–18 under Labour
Borrowing with a faster tightening

- PBR 2009
- Six-year consolidation, with additional action from April 2011

Notes and sources: see Figure 2.20 of the February 2010 IFS Green Budget.
Conclusions

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