Public spending cuts: pain shared?

Rowena Crawford, Carl Emmerson, David Phillips and Gemma Tetlow
Public spending set to be cut sharply

Notes and sources: see Figure 6.3 of The IFS Green Budget: February 2011.
Summary

• Tightest five-year squeeze ‘public service’ spending in real terms since at least end of Second World War

• Spending Review 2010 set out how spending cuts distributed for next four years
  – Whitehall departments: scale and timing differs across public service departments
  – Devolved administrations: have freedom to set own spending plans

• Lessons from the last squeeze: the mid 1990s

• Improving public spending planning regime
  – Spending Reviews should consider as wide a set of spending areas as possible
Whitehall departments: ‘winners’

International development 33.4
Energy and climate change 15.5
Work and pensions 0.9
NHS (England) -0.2
Defence -7.8
Education -11.4
Average DEL cut -11.7

Real budget increase 2011–12 to 2014–15

DEL = Departmental Expenditure Limits
Notes and sources: see Figure 6.4 of The IFS Green Budget: February 2011.
Whitehall departments: ‘losers’

Average DEL cut

Transport: -15.1
Culture, media and sport: -21.6
Home office: -25.6
Justice: -25.8
CLG: Local Government: -27.3
Business, innovation and skills: -29.0
Environment, food and rural affairs: -31.3
CLG: Communities: -67.8

Real budget increase 2011–12 to 2014–15

DEL = Departmental Expenditure Limits
Notes and sources: see Figure 6.4 of The IFS Green Budget: February 2011.
Whitehall departments: timing of cuts

Example: equal pain

-25% 0% 25% 50% 75% 100% 125%

Percentage of required cuts achieved

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Notes and sources: see Figure 6.6 of *The IFS Green Budget: February 2011*. 
Whitehall departments: timing of cuts

- **Defence**
- **Transport**
- **Total**

CLG: Local Government

CLG: Communities

Percentage of required cuts achieved

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Notes and sources: see Figure 6.6 of *The IFS Green Budget: February 2011*. 
Whitehall departments: timing of cuts

Percentage of required cuts achieved

Defence
Transport
Total
CLG: Local Government
Education
CLG: Communities

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Notes and sources: see Figure 6.6 of The IFS Green Budget: February 2011.
Devolved spending settlements

- Total block grant to each devolved administration largely determined by Barnett formula
- Devolved governments free to choose how to spend it
  - can make different decisions from those made in England
- Difficult to compare countries
  - set out plans for different periods
  - departmental boundaries differ
Devolved spending decisions: Scotland

- Set out detailed plans only for 2011–12
- Seem to have made very similar decisions to those made for England
  - health ‘protected’: 0.8% real cut
  - housing and regeneration experience large real cuts: 21.3%
  - higher education spending cut relatively heavily: 14.2% real cut

Note: All figures for cuts are in real terms, and refer to one-year cut 2011–12.
Devolved spending decisions: Wales

- Set out detailed plans for 2011–12 to 2013–14
- Chosen not to protect health spending
  - health spending real terms cut: 8.1% over three years
  - other departments cut by average 11.4%
  - if had frozen health spending, cut to other departments would have to have been 16.9%

Note: All figures for cuts are in real terms, and refer to three-year cut to 2013–14. Based on figures from Welsh Draft Budget, November 2010.
Devolved spending decisions: Northern Ireland

- Set out detailed plans for all four years covered by SR2010
- Health ‘protected’
- Different prioritisation between schools and higher education?
  - Education department (responsible for schools): cut by 13.7%
  - Employment and Learning department (responsible for further and higher education): cut by 8.9%

Note: All figures for cuts are in real terms, and refer to four-year cut to 2014–15.
Will these plans be delivered? Lessons from the last squeeze: mid 1990s

- Tight spending plans for 1993–94 onwards
  - real terms cut planned, initially, for 1994–95
- Government was successful at delivering cash spending plans
- But, lower-than-expected inflation
  - perhaps made it easier to meet cash spending plans?
  - meant real terms cut was not delivered as quickly as intended
  - spending eventually cut in real terms in 1996–97
- Lessons for the current squeeze?
  - should be cautious of inferring too much
  - much larger cuts planned now than in mid 1990s
Conclusions

• Tightest five-year squeeze on ‘public service’ spending since at least end of Second World War

• Spending Review 2010 set out how spending cuts distributed
  – Whitehall departments: defence and transport cuts back-loaded, schools and housing cuts front-loaded
  – Devolved administrations: have prioritised differently in some cases

• Lessons from the last squeeze: the mid 1990s
  – government was successful at sticking to cash spending plans
  – but lower-than-expected inflation meant this did not turn into real terms cuts as quickly as intended

• Planned cuts very big, impact on public services uncertain
  – Government should review SR2010 settlements in 2012 in light of developments: has the pain been optimally allocated?
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