Press Release

Tough choices to make as welfare, health and care bills rise

We often worry about increased spending on health, long term care and social security in the future. We are right to. But we perhaps underestimate the extent to which the shape of the state has already changed to accommodate much greater spending on these areas. Between them they accounted for a third of all spending in 1978–79. They now account for half of spending. Add in education and the “core” welfare state – education along with health, social security and social care accounts for nearly two thirds of spending, up from a half at the end of the 1970s.

This dramatic increase in the share of health and social welfare spending has been made possible by substantial reductions in the proportion of spending going to defence, housing, and support for business and industry.

Going forward, spending on health, pensions and long term care is set to rise fast. Just these elements of spending, excluding all the welfare benefits paid to non-pensioners, will reach half of all public spending over the next 50 years unless there is significant reform or unless total spending is significantly increased.

These are among the findings of new analysis of recent government figures by researchers at the IFS.

The analysis finds that the shape of the state today is very different from that of 30 years ago. As a proportion of the total, health has nearly doubled from 10% to 18% of spending. At £200 billion a year, social security spending now accounts for 29% of the total, up from 23% 30 years ago.

That means, of course, that spending on other functions must have fallen in relative terms. Defence spending has been on a long downward trajectory from 10% of the total in the late 1970s to 6% today. And there are other areas that were important in the late ’70s that barely register today; spending on housing and on various forms of industrial support has fallen by two thirds over this period.

The spending cuts planned up to 2014–15 are largely consistent with this longer run pattern. Health spending has been “protected” and so will rise further as a proportion of the total. Spending on housing has been hit very hard. And spending on “public order and safety” – police, prisons, and other aspects of the justice system – is set to fall back dramatically. One consequence is that by 2014–15 spending on the NHS alone will account for nearly 30% of all public service spending.
(that is spending excluding social security and debt interest), up from 20% in the early '90s.

Whilst the public and political desire to protect health and some other aspects of spending is no surprise, it is not clear that any government has really planned such a remarkable transformation in the shape of the state.

Looking further forward the OBR has set out what it thinks will happen to spending as a result of demographic changes over the next 50 years. Spending on health, pensioner benefits and long term care is set rise from 37% of spending now to 47% in 50 years time simply as a result of changing demographics. Even small additional cost increases in health – which we might reasonably expect – push this total to well over half of spending.

Paul Johnson, Director of the IFS and one of the authors of the report, said: "The way the state spends our money has shifted to a remarkable extent towards spending on health and social security over the past 30 years. The current government's plans are very much consistent with this trend. This change has been possible because the state has withdrawn from other areas of activity – defence, housing and industrial support. Going forward pressures on health and pension spending are severe. Governments have three choices – increase total spending to accommodate these changes, reform health and pension spending dramatically to cap future costs, or cut back elsewhere.”

ENDS

Notes to Editors:

1. The paper referenced here, “The changing composition of public spending” by Rowena Crawford and Paul Johnson, will be published on Wednesday 10th August and will be available on the IFS website at www.ifs.org.uk

   For embargoed copies of the report or other queries, please contact Bonnie Brimstone (020 7291 4800 or bonnie_b@ifs.org.uk).

2. This research was funded by the Economic and Social Research Council through the Centre for the Microeconomic Analysis of Public Policy at the IFS (RES-544-28-5001).