

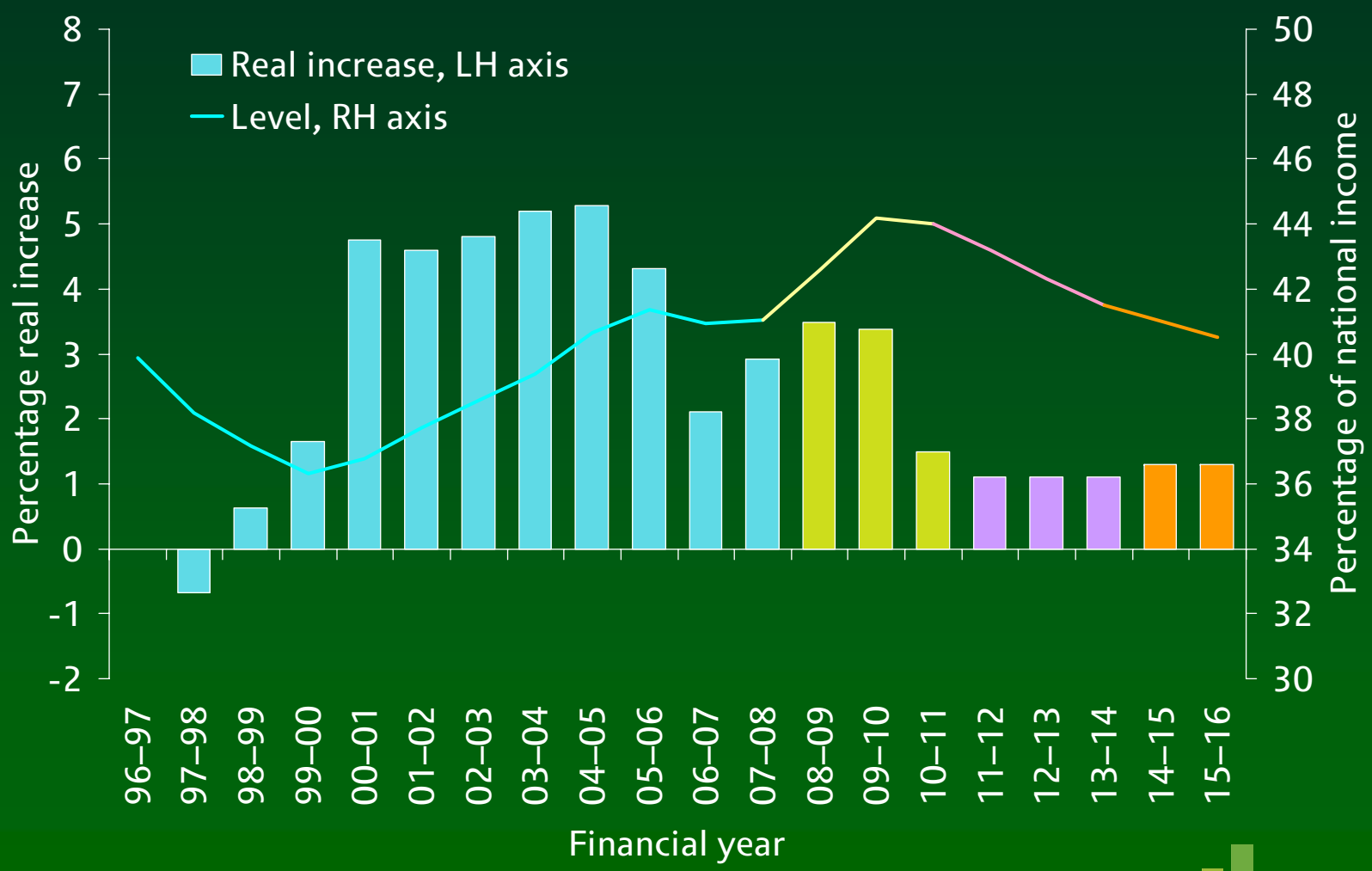
Institute for Fiscal Studies



Public spending: set for a squeeze

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Public spending squeezed



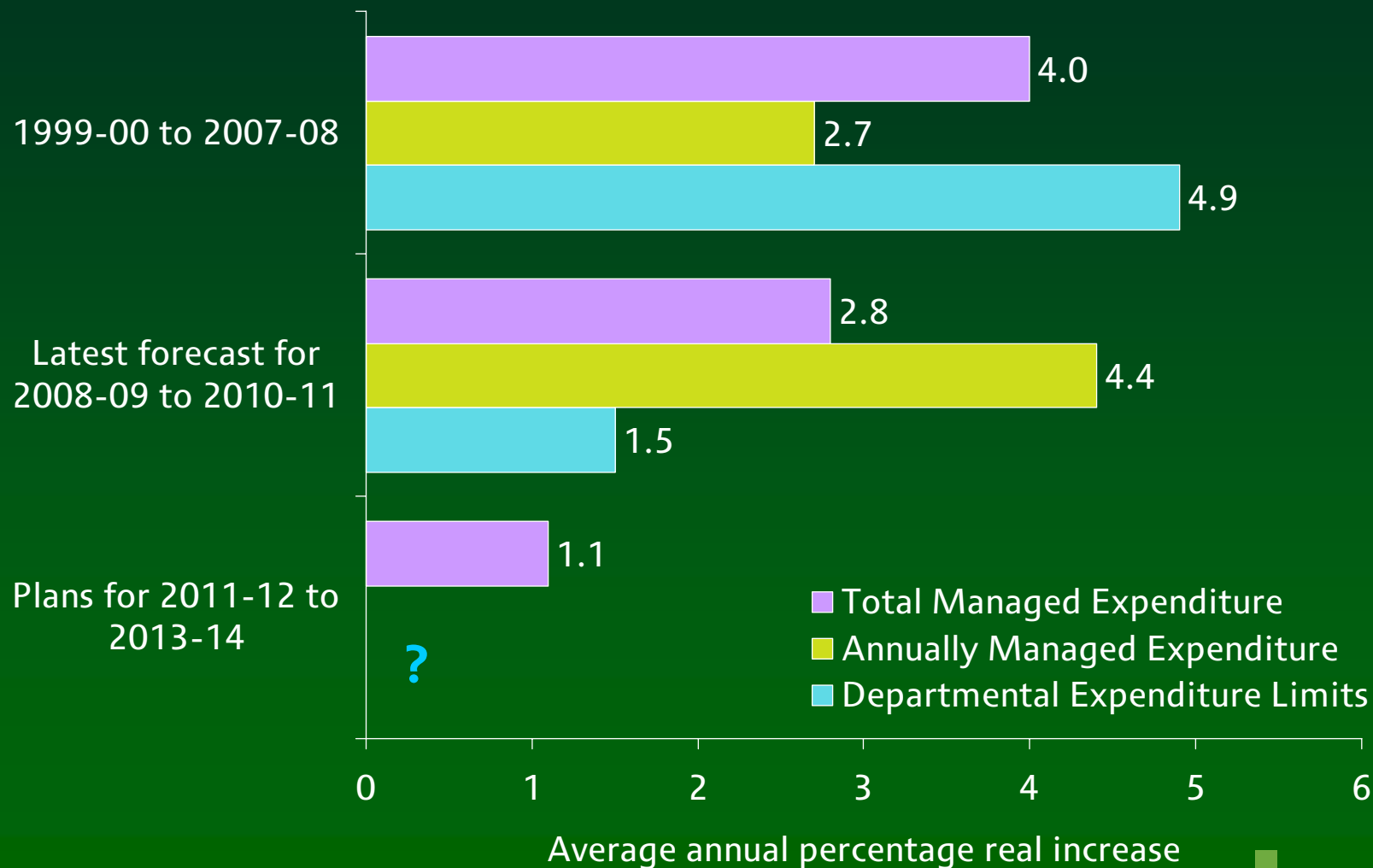
Current spending squeezed



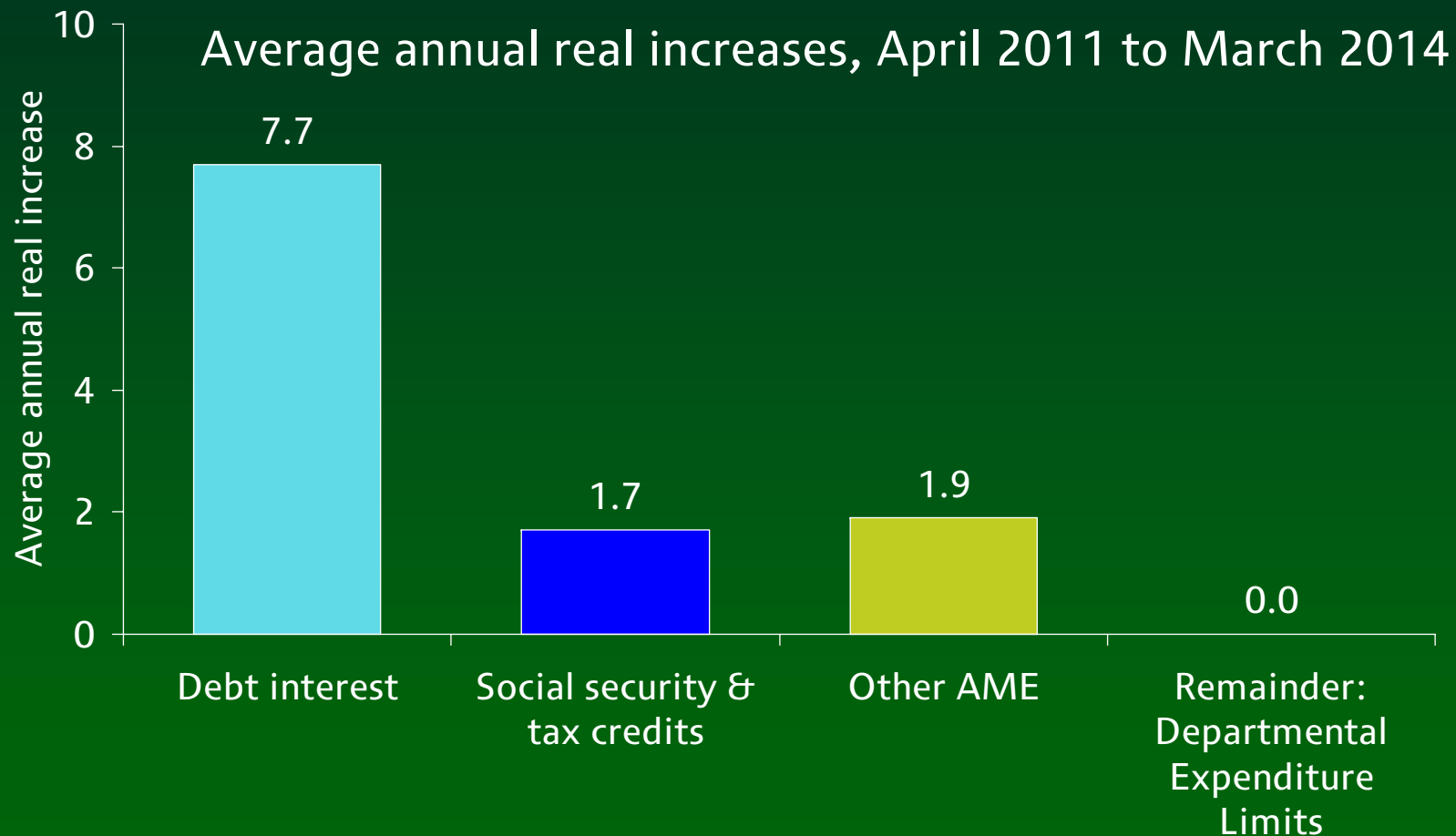
Investment spending particularly squeezed



How much left for departments?



A possible Spending Review 2010 allocation



Possible Spending Review 2010 allocation

- Total DEL set to grow by 1.5% from April 2008 to March 2011
- Plausible scenario suggests real freeze over following three years
- Were this slowdown to be evenly spread then:
 - only seven departments would receive a real increase (including: international development, education, health, energy & climate change, and intelligence agencies)
 - NHS spending would fall as a share of national income, and increase less quickly than it did under the Conservatives
 - Home Office budget cut in real terms
 - Department of Innovation, Universities and Skills would be cut in real terms and education spending might fall as a share of national income

Efficiency savings the solution?

- David Cameron, December 2008:
 - “In the Pre Budget Report, the Chancellor revised down his spending plans, but only from 2011 onwards, for 2010 all he is promising is £5 billion of unspecified ‘efficiencies’”
- Alistair Darling, December 2008
 - “if you consider that we spend over £400 billion in public spending on departmental expenditure I defy anybody to tell me it is not possible to find £5 billion worth of efficiency savings.”
- David Cameron, January 2009
 - announces that he would spend £5 billion less than Labour in 2009–10 (which departments budgets would be cut left unspecified)
- But genuine efficiency savings should have been delivered anyway
 - choice is between whether to use them to improve public services, to cut taxes or to reduce borrowing

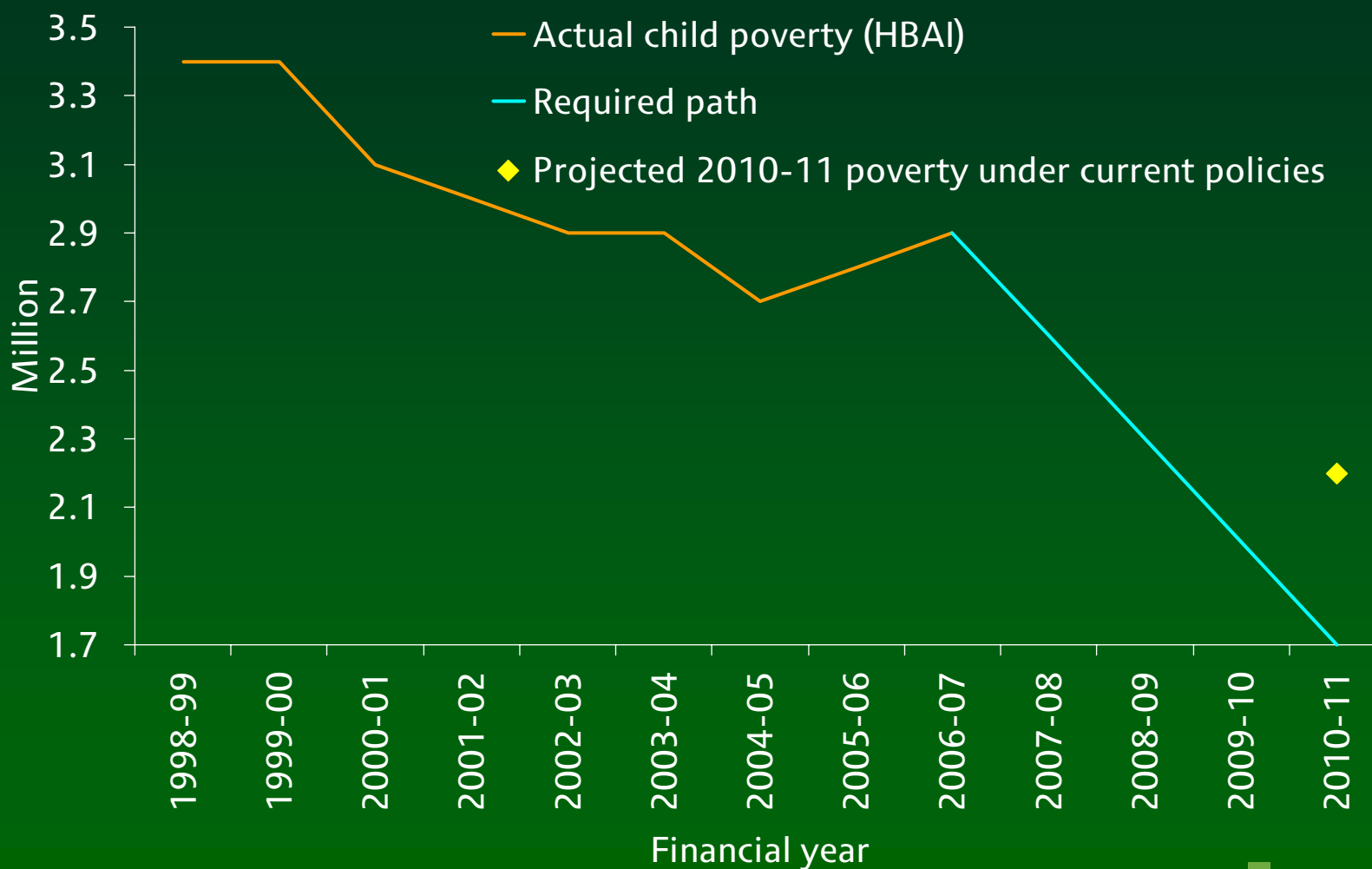
A casualty of the credit crunch? (1): restoration of the state pension earnings-link?

“During the next Parliament, we will re-link the uprating of the basic State Pension to average earnings. Our objective, subject to affordability and the fiscal position, is to do this in 2012, but in any event by the end of the Parliament at the latest.”

Department for Work and Pensions, 2006, Pensions White Paper
“Security in Retirement: Towards a New Pensions System”

- Delaying from April 2012 to beyond March 2014 would save £0.7 billion in 2012–13 and £1.4 billion in 2013–14
- Biggest losers would be those low-income pensioners not taking up the means-tested benefits to which they are entitled

A casualty of the credit crunch? (2): child poverty to persist above 2010 target level?



A casualty of the credit crunch? (3): higher education budget cut?

- Further reduce grants or tighten cap on student numbers?
 - but desire to improve access among low and middle income families and commitment to increase numbers year-on-year
- Increase tuition fees and cut direct grant to universities?
 - would further deter debt-averse potential students
- Reduce generosity of student loans?
 - repayments only once earnings above £15k: lowering would hit lower earning graduates
 - and outstanding debt written off after 25 years: increasing would hit lower earning graduates
 - subsidised interest rate: increase to RPI+2½% would save £2,800 per graduate with lowest earning graduates unaffected

Conclusions

- Treasury planning lower growth in spending from April 2011
 - lower than that delivered by Conservatives from 1979 to 1997
 - over 3 years would cut spending by £37 billion as a share of GDP
- Next spending review to be much tighter than predecessors
 - plausible scenario suggests real freeze in departmental spending
 - capital intensive areas hit hardest: transport and housing?
 - NHS and education spending could be cut back as a share of GDP
- Possible casualties
 - earnings indexation of state pension delayed beyond April 2012?
 - child poverty to persist above 2010 target level?
 - future graduates to be treated less favourably?