Very small improvement in the growth forecast yesterday

GDP growth forecasts: November 2017 and March 2018

Source: Office for Budget Responsibility Economic and Fiscal Outlook and Public finances databank

Spring Statement 2018: The lost decade
Economic growth has been much worse than was expected in March 2008

Real GDP growth forecasts: March 2008 and March 2018

“Because of the changes made by this Government to entrench stability and increase the flexibility and resilience of our economy, I am able to report that the British economy will continue to grow through this year and beyond.”

Alistair Darling, Budget 2008

Source: Office for Budget Responsibility "Economic and Fiscal Outlook" and "Public finances databank"

Note: March 2008 forecast adjusted to account for a change in the definition of GDP: assumed growth equal to final year of forecast beyond forecast horizon

Spring Statement 2018: The lost decade
Which means lower than expected living standards

Source: Office for Budget Responsibility Economic and Fiscal Outlook and Public finances databank

Spring Statement 2018: The lost decade
Slower recovery than other recessions

GDP per capita growth since the start of recessions

Quarters since start of recession

Growth since start of recession

Source: Office for National Statistics series IHXW, Bank of England A millenium of economic data and authors’ calculations
Note: Series stop when a new recession or WW2 begins. 1920 and 1930 recessions based on annual data

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Earnings have fared even worse

Median earnings of employees

Employment relatively strong but earnings still below 2007–08 level

Employment rate 0.5 ppt higher than in 2008 Q1

Source: Authors calculations using ASHE. Adjusted for inflation using the a variant of the Consumer Prices Index (CPI) that incorporates mortgage interest payments (except in 2016-17, where we use the CPI).
Some households affected more than others so far

Earnings growth has been weak, while employment recovered strongly

Pensioners have fared better than those of working age
  - Less reliant on wages
  - State pension rising with triple lock

Among working age households, richer households have fared worse
  - Wage income more important at the top of the income distribution
  - Increases in employment benefitted poorer households

Between 2007–08 and 2015–16, real household net income growth was 7.7% at the 10th percentile and –0.6% at the 90th percentile
Summary so far

**Terrible economic growth since 2008**
- National income 14% below the level implied by March 2008 forecasts
- Remarkably slow recovery by historical standards, yet according to the OBR the economy is above trend
- Medium-term outlook is for continued sluggish growth

**Incomes and living standards have suffered as a result**
- Median wages still below their 2008 level
- Pensioners have fared better than those of working age
- Income inequality lower now than in 2007–08

**Lower national income also affects the public finances**
Borrowing has been far higher than planned

Public Sector Net Borrowing forecasts: March 2008, November 2017 and March 2018

Source: Office for Budget Responsibility Economic and Fiscal Outlook and Public finances databank
Note: March 2008 forecast adjusted to account for a change in the definition of GDP: assumes constant borrowing as a share of GDP beyond the forecast horizon

Spring Statement 2018: The lost decade
Which has led to higher public sector debt

Public Sector Net Debt forecasts: March 2008, November 2017 and March 2018

Source: Office for Budget Responsibility *Economic and Fiscal Outlook* and *Public finances databank*

Note: March 2008 forecast adjusted to account for a change in the definition of GDP. Assumes growth and borrowing as a share of GDP constant beyond the forecast horizon.

*Spring Statement 2018: The lost decade*
Which has led to higher public sector debt

Public Sector Net Debt forecasts: March 2008, November 2017 and March 2018

50ppt higher than a decade ago

Only other periods of such large increases:
1940s, 1910s, 1810s, 1780s

Source: Office for Budget Responsibility *Economic and Fiscal Outlook* and *Public finances databank*

Note: March 2008 forecast adjusted to account for a change in the definition of GDP. Assumes growth and borrowing as a share of GDP constant beyond the forecast horizon.
Large increases in spending as a share of GDP

Tax and spend since 1997–98

- Total managed expenditure
- Current receipts

Spring Statement 2018: The lost decade
Policy relative to the pre-crisis baseline: mostly about reining in spending

Tax and spend measures since March 2008

<table>
<thead>
<tr>
<th>Per cent of national income</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unallocated</td>
</tr>
<tr>
<td>Day-to-day public services</td>
</tr>
<tr>
<td>Investment</td>
</tr>
<tr>
<td>Social security</td>
</tr>
<tr>
<td>Tax</td>
</tr>
</tbody>
</table>

2017-18
- Unallocated: £75 bn
- Day-to-day public services: £29 bn
- Investment: £13 bn
- Social security: £24 bn
- Tax: £5 bn

2025-26
- Unallocated: £18 bn
- Day-to-day public services: £119 bn
- Investment: £34 bn
- Social security: £5 bn
- Tax: £29 bn

Source: Various Budgets, Pre-budget reports and Autumn Statements 2008-2018 and authors’ calculations
Note: Impact of triple lock on pensions and switch to CPI indexation held constant after 2015–16. Policy action based on scorecard measures. £ billion numbers in 2017–18 terms.

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Big tax changes since 2008

A net tax rise of 1½ % of national income
  - Comprises large tax cuts and larger tax rises

Biggest tax cuts:
  - Above inflation increases in the personal allowance (~£12bn in 17–18)
  - Main rate of corporation tax cut from 28% to 19% (~£12bn)
  - Fuel duty frozen since April 2011 (~£5½ bn)

Biggest tax rises
  - Increase in VAT rate from 17.5% to 20% (~£15bn)
  - Restrictions to pension tax relief (~£7 bn)
  - End of contracting out (~£5½ bn)
  - ‘Avoidance and evasion’ (~£10bn)
And large spending cuts

Welfare changes since 2010 save 1.2% of national income in 2017–18

- Large cuts to generosity of tax credits and other working-age benefits
- Pensioners mostly protected – pension triple lock a large giveaway
- More welfare cuts in the pipeline

Deficit reduction primarily achieved by departmental spending cuts

- Steep cuts in real terms, reining back spending as a share of national income since 2010–11
State same size today as in 2007–08

Changes in composition of public spending, 2007–08 to 2017–18

Source: Public finances databank
Spending more on health, overseas aid and pensions, but a smaller share elsewhere

Changes in composition of public spending, 2007–08 to 2017–18

Per cent of national income

<table>
<thead>
<tr>
<th>Category</th>
<th>2007–08</th>
<th>2017–18</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total (2007–08)</td>
<td>39.0</td>
<td>38.8</td>
</tr>
<tr>
<td>Health</td>
<td></td>
<td>+0.7</td>
</tr>
<tr>
<td>Overseas Aid</td>
<td></td>
<td>+0.3</td>
</tr>
<tr>
<td>State pension</td>
<td></td>
<td>+0.8</td>
</tr>
<tr>
<td>Non-state pension welfare</td>
<td></td>
<td>-0.1</td>
</tr>
<tr>
<td>Education</td>
<td></td>
<td>-0.7</td>
</tr>
<tr>
<td>Defence</td>
<td></td>
<td>+0.3</td>
</tr>
<tr>
<td>Public Order &amp; Safety</td>
<td></td>
<td>-0.5</td>
</tr>
<tr>
<td>Other</td>
<td></td>
<td>-0.5</td>
</tr>
</tbody>
</table>

Source: Public finances databank and PESA
Real terms change in spending by function, 2007/08 to 2016/17

- International services (aid)
- Transport
- Health
- Environment protection
- Education
- Defence
- Public and common services
- Culture
- Public order and safety
- Housing (and similar)

Real terms change in spending

Source: HMT Public Expenditure Statistical Analyses 2017
Real terms change in spending by function, 2007/08 to 2016/17

- International services (aid)
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- Housing (and similar)

Real terms change in spending

Source: HMT Public Expenditure Statistical Analyses 2017
Spring Statement 2018: The lost decade
Real terms change in spending by function, 2007/08 to 2016/17

-40% -30% -20% -10% 0% 10% 20% 30%

Real terms change in spending

International services (aid)
Transport
Health
Environment protection
Education
Defence
Public and common services
Culture
Public order and safety
Housing (and similar)

Source: HMT Public Expenditure Statistical Analyses 2017
Spring Statement 2018: The lost decade
Real terms change in spending by function, 2007/08 to 2016/17

Source: HMT Public Expenditure Statistical Analyses 2017

Spring Statement 2018: The lost decade
Real terms change in spending by function, 1997/98 to 2016/17

- International services (aid)
- Transport
- Health
- Environment protection
- Education
- Defence
- Public and common services
- Culture
- Public order and safety
- Housing (and similar)

Real terms change in spending

Source: HMT Public Expenditure Statistical Analyses 2017

Spring Statement 2018: The lost decade
Summary

A decade of weak growth has affected living standards

It has also led to large public finance problems

Reasonably large net tax rises and welfare cuts

Public service spending has seen extremely large cuts

Still more austerity in the pipeline, and growth set to remain sluggish