Alternative choices over the future spending squeeze

Rowena Crawford
Progress to date

• How much of the planning spending cut has been achieved to date depends on the definition used

• Prime Minister has favoured “Total spending less debt interest” focussing on a £25bn cut over 2016–17 and 2017–18
  – on the same basis now a £30bn cut over those two years
  – more importantly a £38bn cut over five years to 2019–20
  – compares to £11bn cut over four years to 2014–15, so only 23% of the planned 2010–11 to 2019–20 cut done by end 2014–15
  – in part due to faster growth in pensioner benefits over the earlier period

• We will focus on “Departmental Expenditure Limits” (DEL)
  – essentially spending by Whitehall departments on admin and services
  – 39% of the planned 2010–11 to 2019–20 cut done by end 2014–15
Planned and implied departmental spending

This parliament (10-11 to 14-15):
-2.2% average annual cut
-8.6% cumulative cut

Nine years of consolidation
-2.8% average annual cut
-22.2% cumulative cut

Next parliament (14-15 to 19-20):
-3.2% average annual cut
-14.9% cumulative cut
Planned and implied departmental spending

“Allocated period” (10-11 to 15-16):
-2.0% average annual cut
-9.5% cumulative cut

“Unallocated period” (15-16 to 19-20):
-3.7% average annual cut
-14.1% cumulative cut

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Some departments faring particularly badly

- NHS, aid and schools (non-investment) spending have been relatively protected
- Other areas have therefore fared worse than total DEL figures imply:

<table>
<thead>
<tr>
<th></th>
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<tbody>
<tr>
<td>Total DEL</td>
<td>6.5</td>
<td>0.0</td>
<td>6.5</td>
</tr>
<tr>
<td>'Protected' areas</td>
<td>-9.5</td>
<td>-14.1</td>
<td>-22.2</td>
</tr>
<tr>
<td>'Unprotected' areas</td>
<td>-19.9</td>
<td>-26.3</td>
<td>-41.0</td>
</tr>
</tbody>
</table>
The changing size of the state

Percentage of total national income (%)

Sources: EFO December 2014, ONS

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The changing role of the state

Percentage of total public spending (%)

- Health
- State pension
- Debt interest

Sources: PESA 2014, DWP Benefit Expenditure tables 2014, EFO December 2014, ONS
Planned and implied departmental spending

Real departmental spending (indexed to 100 in 2010-11)

- Outturn
- Allocated between departments
- Yet to be allocated

“Unallocated period” (15-16 to 19-20):
- 3.7% average annual cut
- 14.1% cumulative cut

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How could future tax increases/welfare spending cuts change the picture?

<table>
<thead>
<tr>
<th>Tax increase or social security spending cut, £ billion (2015–16 terms)</th>
<th>Total DEL</th>
</tr>
</thead>
<tbody>
<tr>
<td>-10</td>
<td>-20%</td>
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<tr>
<td>-5</td>
<td>-15%</td>
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<tr>
<td>0</td>
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<td>20%</td>
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<tr>
<td>40</td>
<td>30%</td>
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<tr>
<td>45</td>
<td>35%</td>
</tr>
<tr>
<td>50</td>
<td>40%</td>
</tr>
</tbody>
</table>

Real change in departmental spending, 2015–16 to 2019–20
How could future tax increases/welfare spending cuts change the picture?

- **Current coalition plans**: DEL cut at same average annual rate as over 2010-11 to 2015-16: Would require £21 billion welfare cuts/tax increase.

- **No further real DEL cut**: Would require £47 billion welfare cuts/tax increase.
Some possible alternative scenarios

- **“Coalition policy”**
  - £21bn additional welfare cut / tax rise
  - £26.3

- **“Same rate DEL”**
  - £14.1

- **“Osborne max”**
  - £12 bn additional welfare cut
  - £7.2 bn tax cut
  - £14.3
Some possible alternative scenarios

- **“Coalition policy”**
  - PSNB = -1.0% GDP
  - £21bn additional welfare cut / tax rise

- **“Same rate DEL”**
  - PSNB = -1.0% GDP

- **“Osborne max”**
  - PSNB = 0% GDP
  - “£12 bn additional welfare cut”
  - “£7.2 bn tax cut”

- **“Current budget balance”**
  - PSNB =1.2% GDP
  - No net change to welfare/ tax

Graph:
- Real % cut 2015-16 to 2019-20
- Total DEL
- 'Unprotected' DEL

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Some possible alternative scenarios

- "Coalition policy":
  - PSNB = -1.0% GDP
  - £21bn additional welfare cut / tax rise

- "Same rate DEL":
  - PSNB = -1.0% GDP

- "Osborne max":
  - PSNB = 0% GDP
  - £12 bn additional welfare cut
  - £7.2 bn tax cut

- "Current budget balance":
  - PSNB = 1.2% GDP
  - No net change to welfare/ tax

![Bar chart showing real percentage cut from 2010-11 to 2019-20](chart.png)

- Total DEL
- 'Unprotected' DEL

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The cost of higher borrowing

• Any additional spending financed from higher borrowing would result in higher debt and a greater proportion of spending going on debt interest spending

• Running a current budget surplus (borrowing 1.2% GDP) from 2017-18 onwards rather than coalition plans and zero borrowing in 2019-20 would result in:
  – 2.4% national income higher debt in 2020-21
  – £1.5 billion higher debt interest payments (2015-16 terms)

• Impact would be larger if higher levels of borrowing are maintained in the longer term
  – E.g. see HMT projections in chart 1.9 (p27) of Autumn Statement
Summary

• Current coalition plans imply large cuts to departmental spending still to come
  – Cumulative cuts over whole consolidation could reach 22% for all departmental spending, and 41% for unprotected areas

• Cuts beyond 2015-16 could be reduced by further welfare spending cuts, tax increases and/or higher borrowing

• Tory, Labour and Lib Dem fiscal rules all allow for greater borrowing than currently forecast under coalition policy
  – Tories to a lesser extent than Labour/Lib Dems as aiming for zero borrowing rather than borrowing up to amount spent on investment

• Any additional spending financed from higher borrowing would result in higher debt and a greater proportion of spending going on debt interest spending
  – Impact would be relatively small up to 2019-20; would be larger if higher levels of borrowing are maintained in the longer term
Some possible alternative scenarios (£bn figures)

- **“Coalition policy”**
  - PSNB = -1.0% GDP
  - £21bn additional welfare cut / tax rise

- **“Same rate DEL”**
  - PSNB = -1.0% GDP

- **“Osborne max”**
  - PSNB = 0% GDP
  - £12 bn additional welfare cut
  - £7.2 bn tax cut

- **“Current budget balance”**
  - PSNB = 1.2% GDP
  - No net change to welfare/ tax

The chart shows the real £ cut from 2015-16 to 2019-20 (in £ billion, 2015-16 prices) for each scenario.

- **Total DEL**
  - -51.4 - 51.4

- **'Unprotected' DEL**
  - -27.9 - 27.9

  - -24.0 - 24.0

  - -4.6 - 4.6
Some possible alternative scenarios (£bn figure)

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Graph showing real cut from 2010-11 to 2019-20 in (£ billion, 2015-16 prices) for different scenarios.