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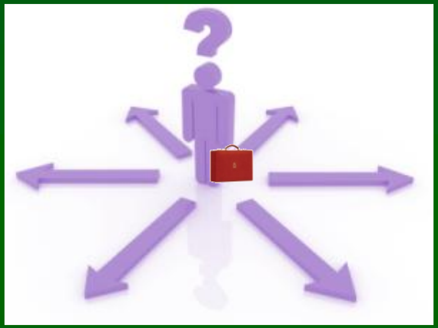


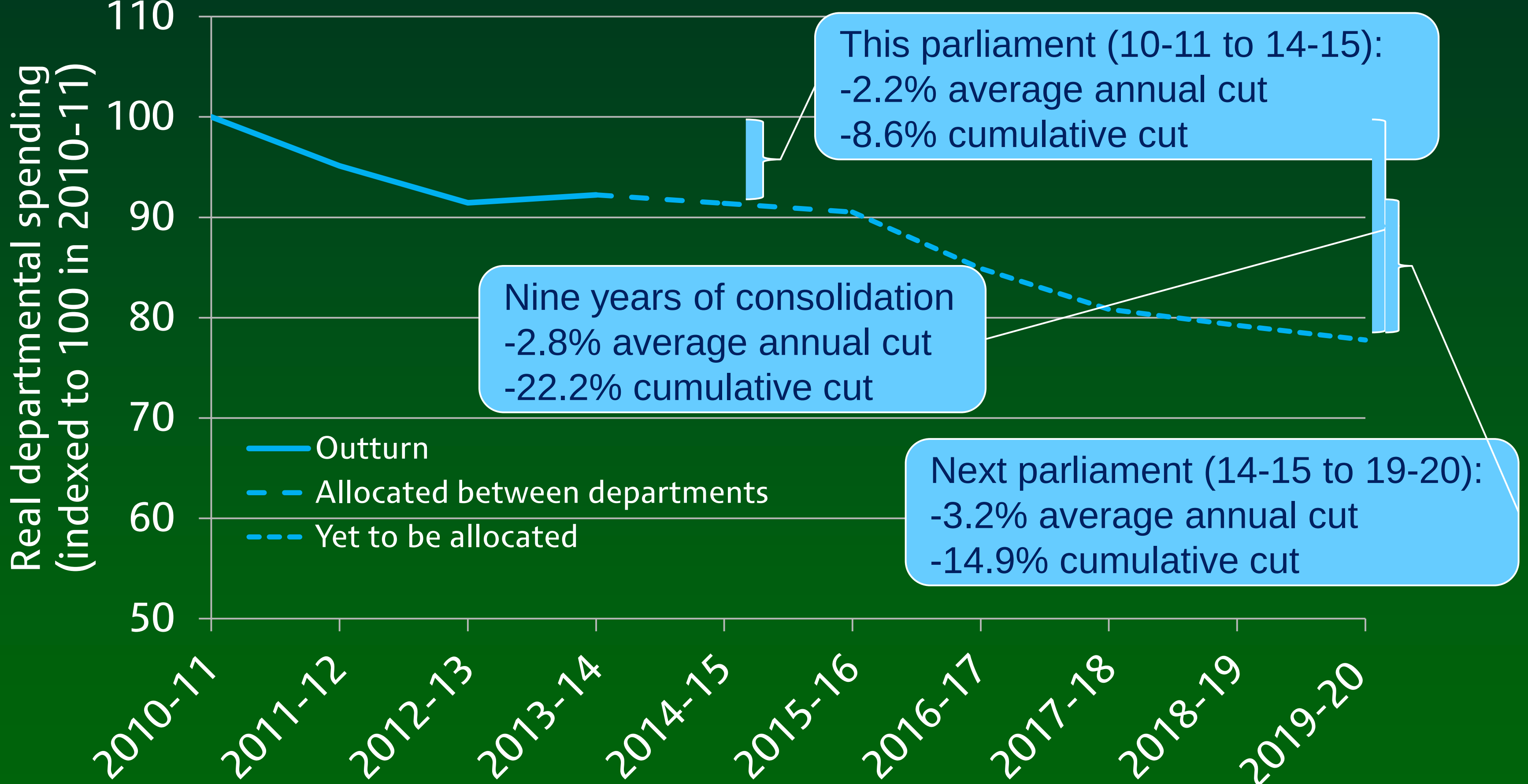
Alternative choices over the future spending squeeze

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



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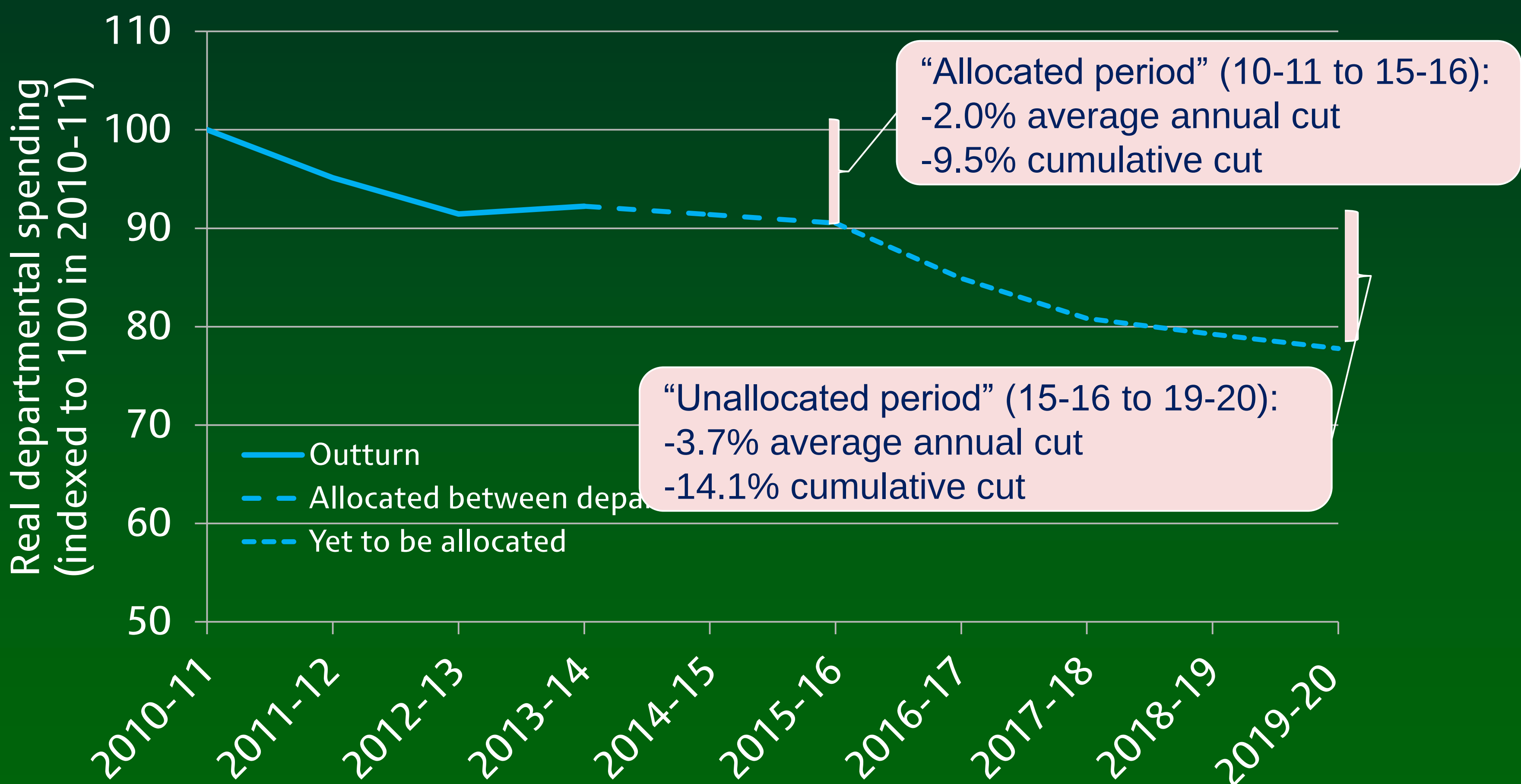
Planned and implied departmental spending



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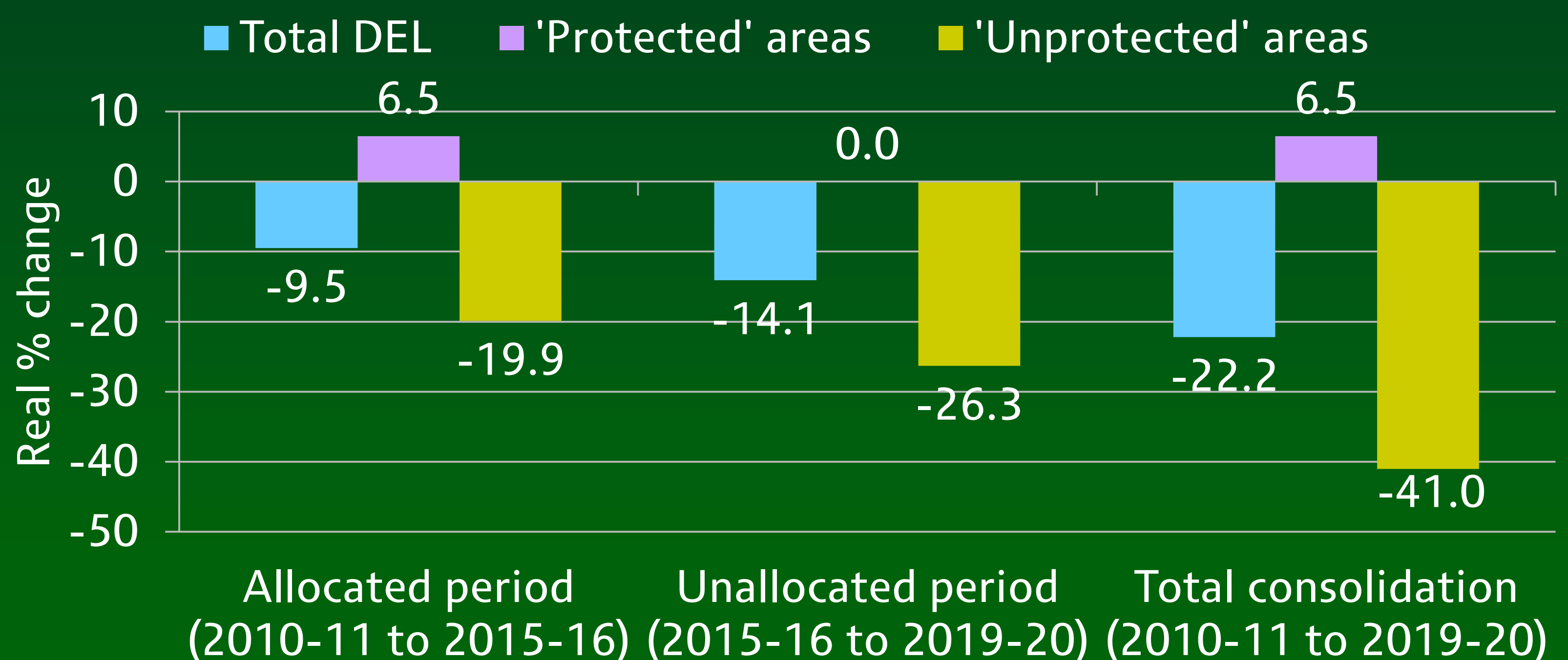
Some departments faring particularly badly

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



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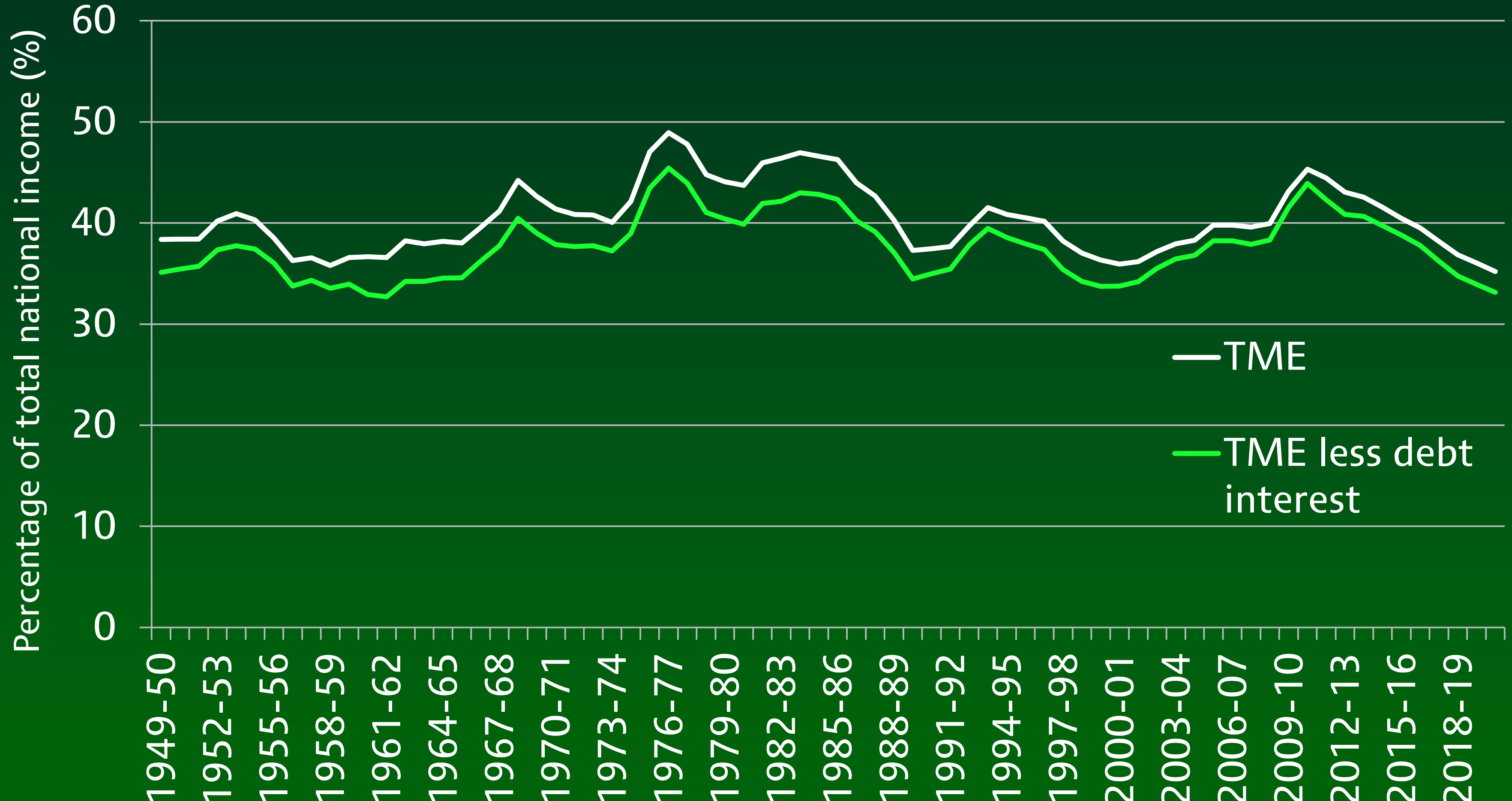
The changing size of the state



Sources: EFO December 2014, ONS

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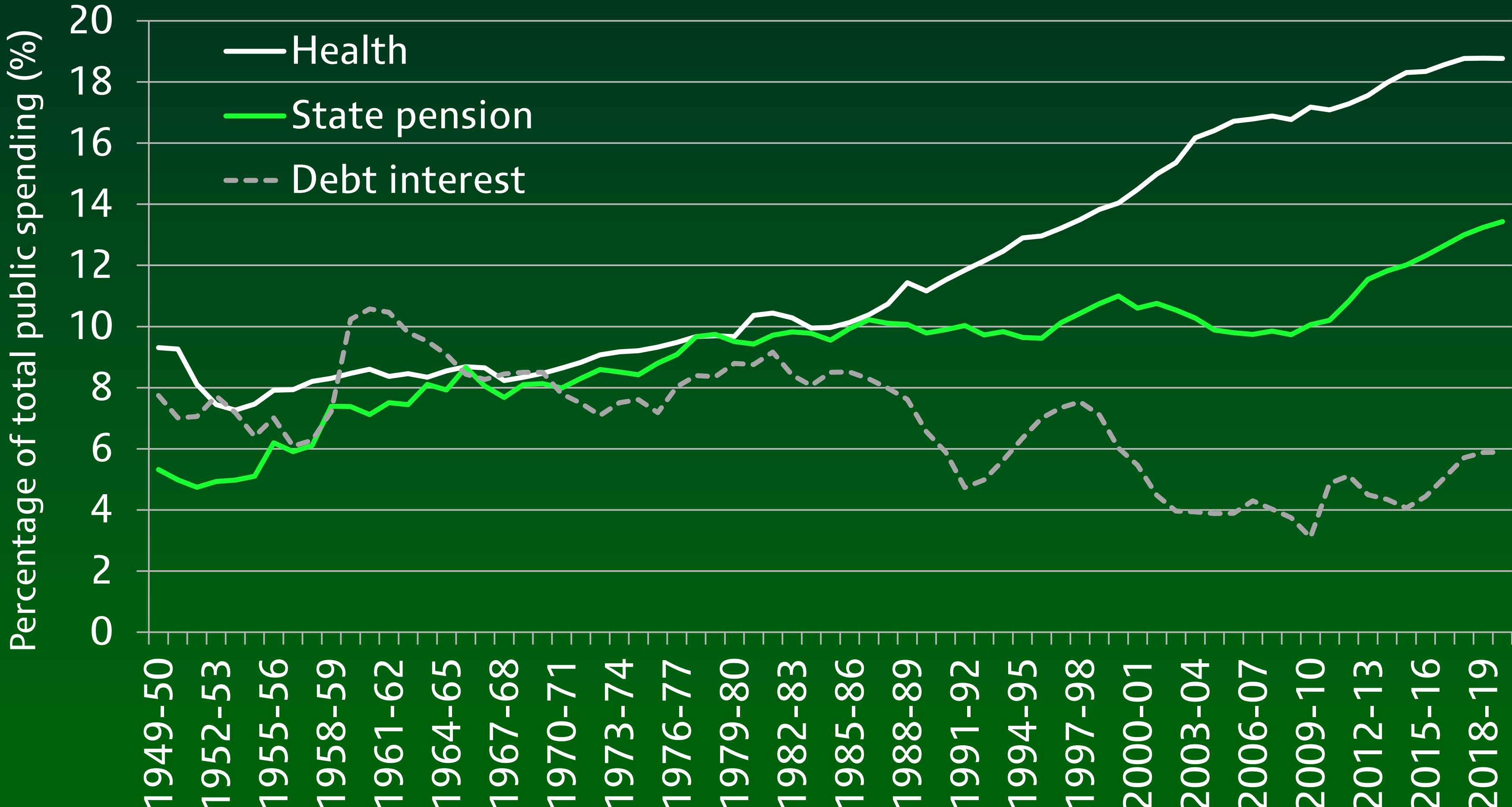
The changing role of the state



Sources: PESA 2014, DWP Benefit Expenditure tables 2014, EFO December 2014, ONS

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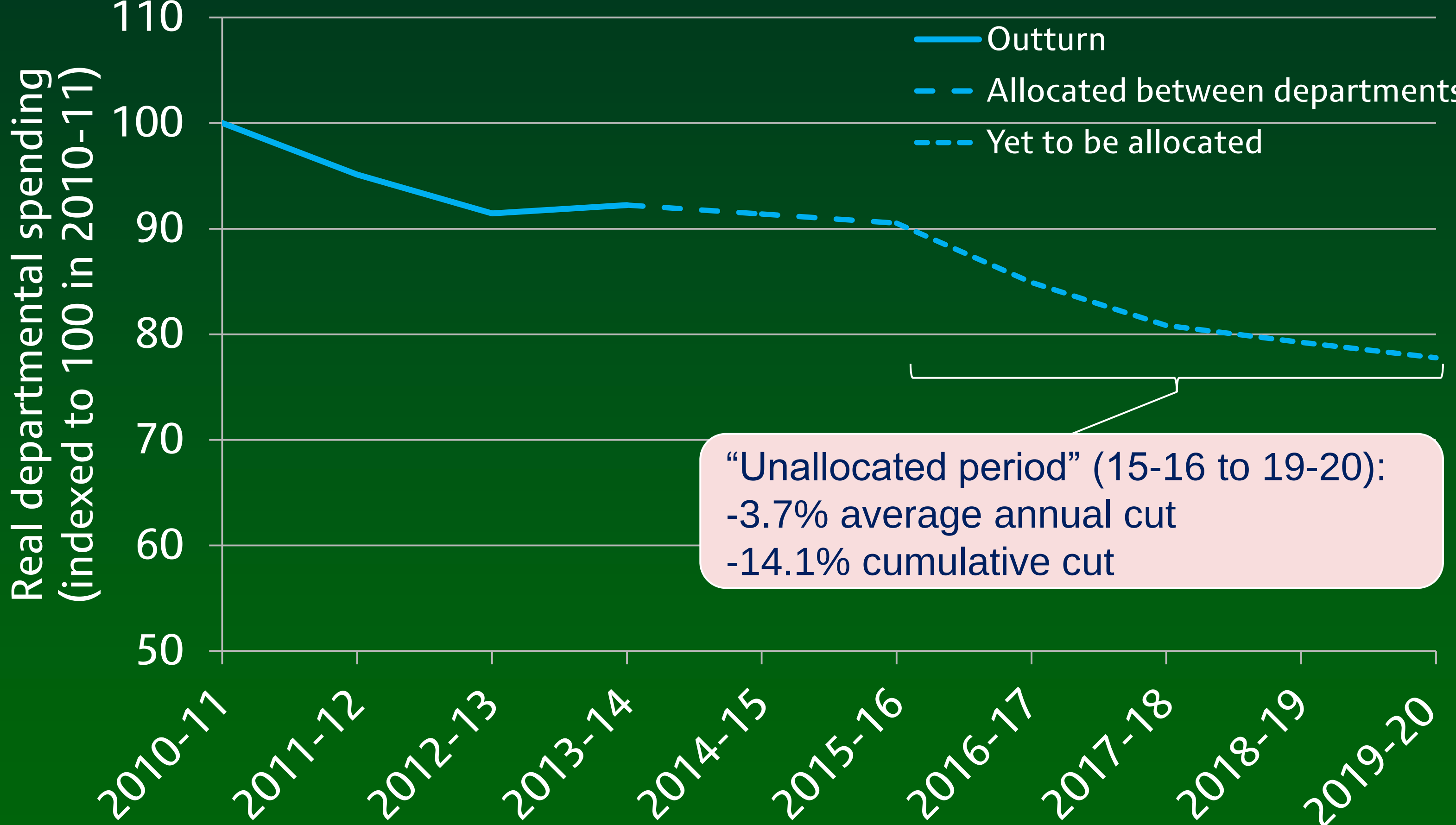
Planned and implied departmental spending



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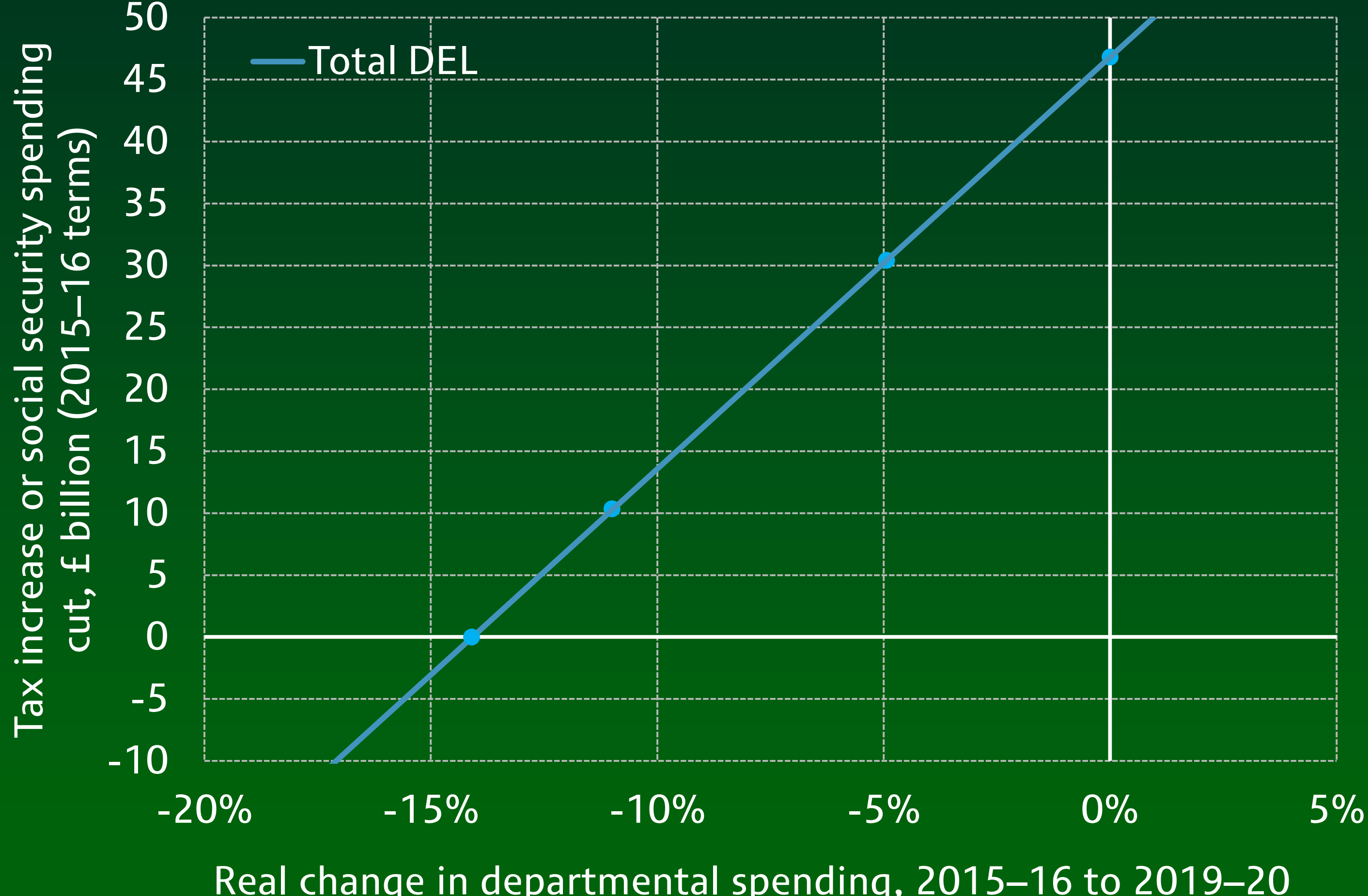
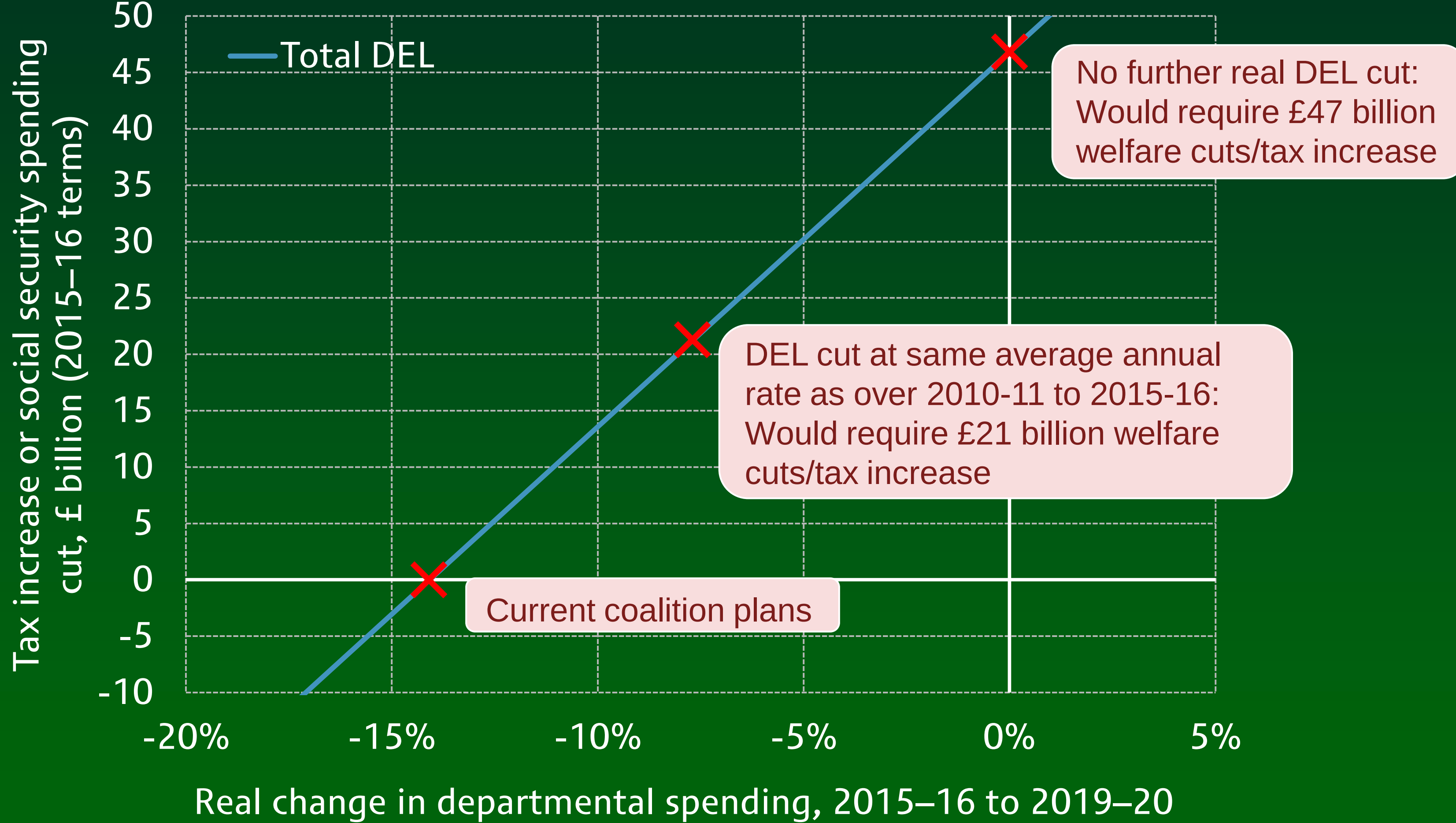
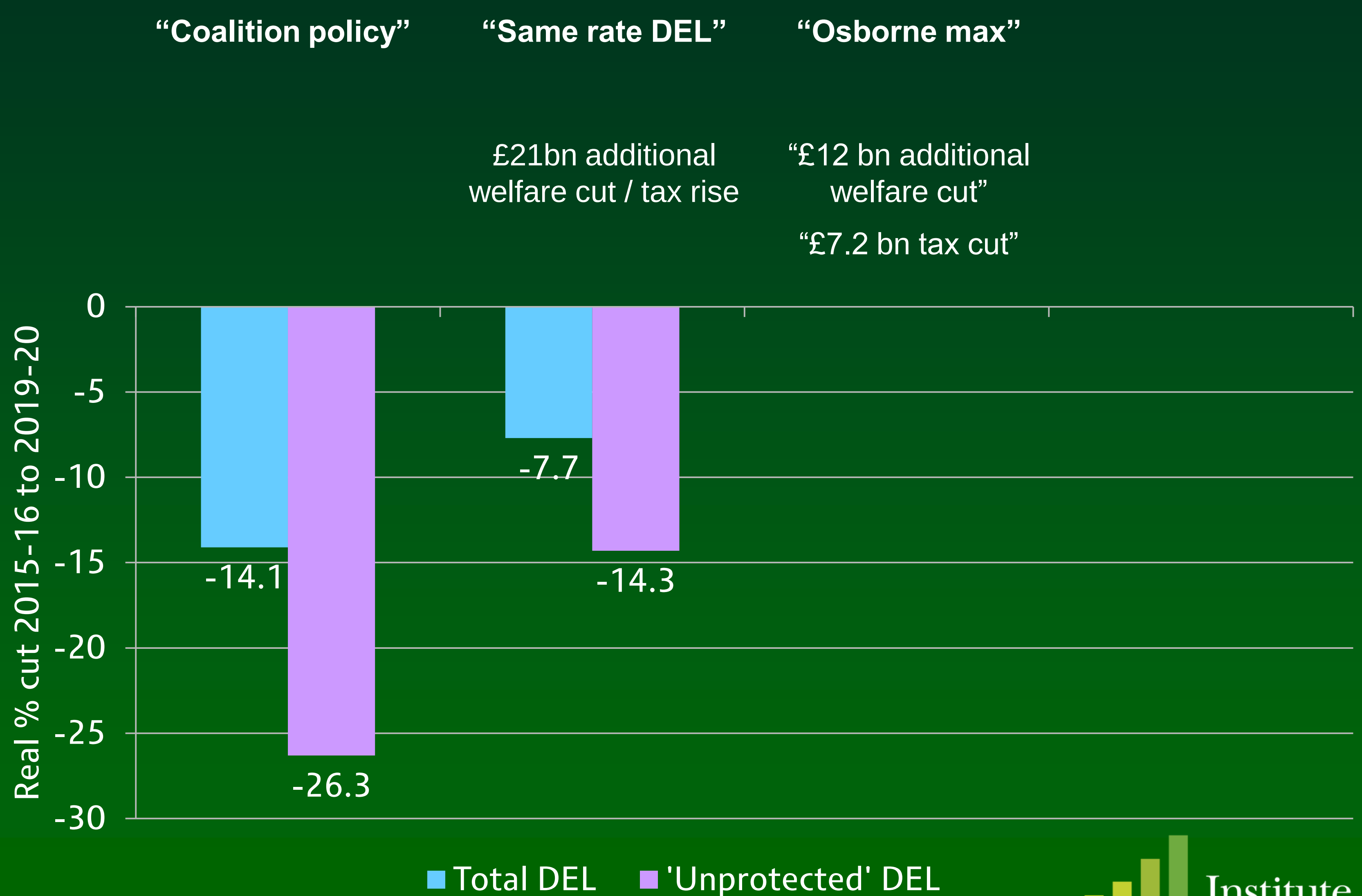
How could future tax increases/welfare spending cuts change the picture?



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



Some possible alternative scenarios



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Some possible alternative scenarios

"Coalition policy"

PSNB = -1.0% GDP

"Same rate DEL"

PSNB = -1.0% GDP

£21bn additional welfare cut / tax rise

"Osborne max"

PSNB = 0% GDP

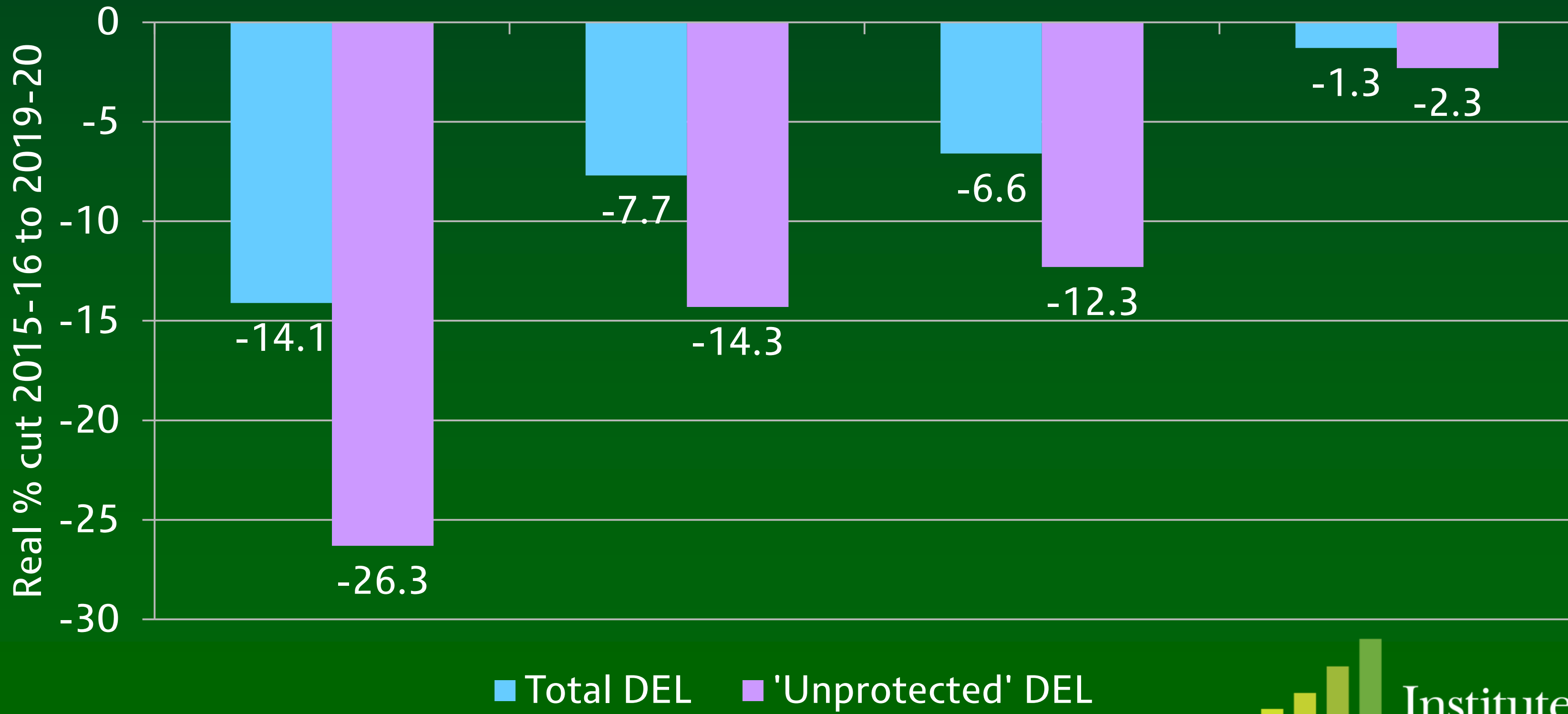
"£12 bn additional welfare cut"

"£7.2 bn tax cut"

"Current budget balance"

PSNB =1.2% GDP

No net change to welfare/ tax



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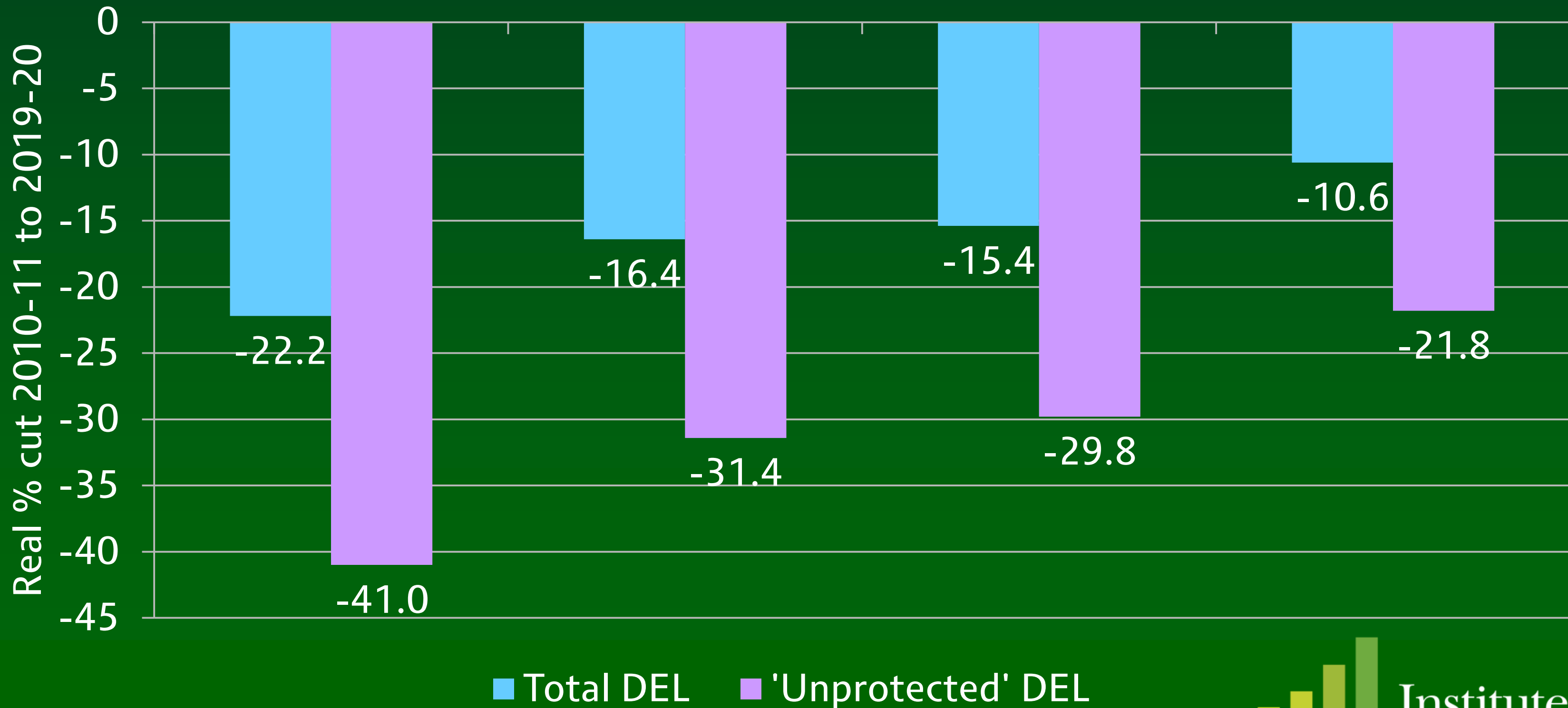
Some possible alternative scenarios

"Coalition policy"	"Same rate DEL"	"Osborne max"	"Current budget balance"
PSNB = -1.0% GDP	PSNB = -1.0% GDP	PSNB = 0% GDP	PSNB =1.2% GDP
	£21bn additional welfare cut / tax rise	"£12 bn additional welfare cut"	No net change to welfare/ tax
		"£7.2 bn tax cut"	



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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

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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"	"Same rate DEL"	"Osborne max"	"Current budget balance"
PSNB = -1.0% GDP	PSNB = -1.0% GDP	PSNB = 0% GDP	PSNB =1.2% GDP
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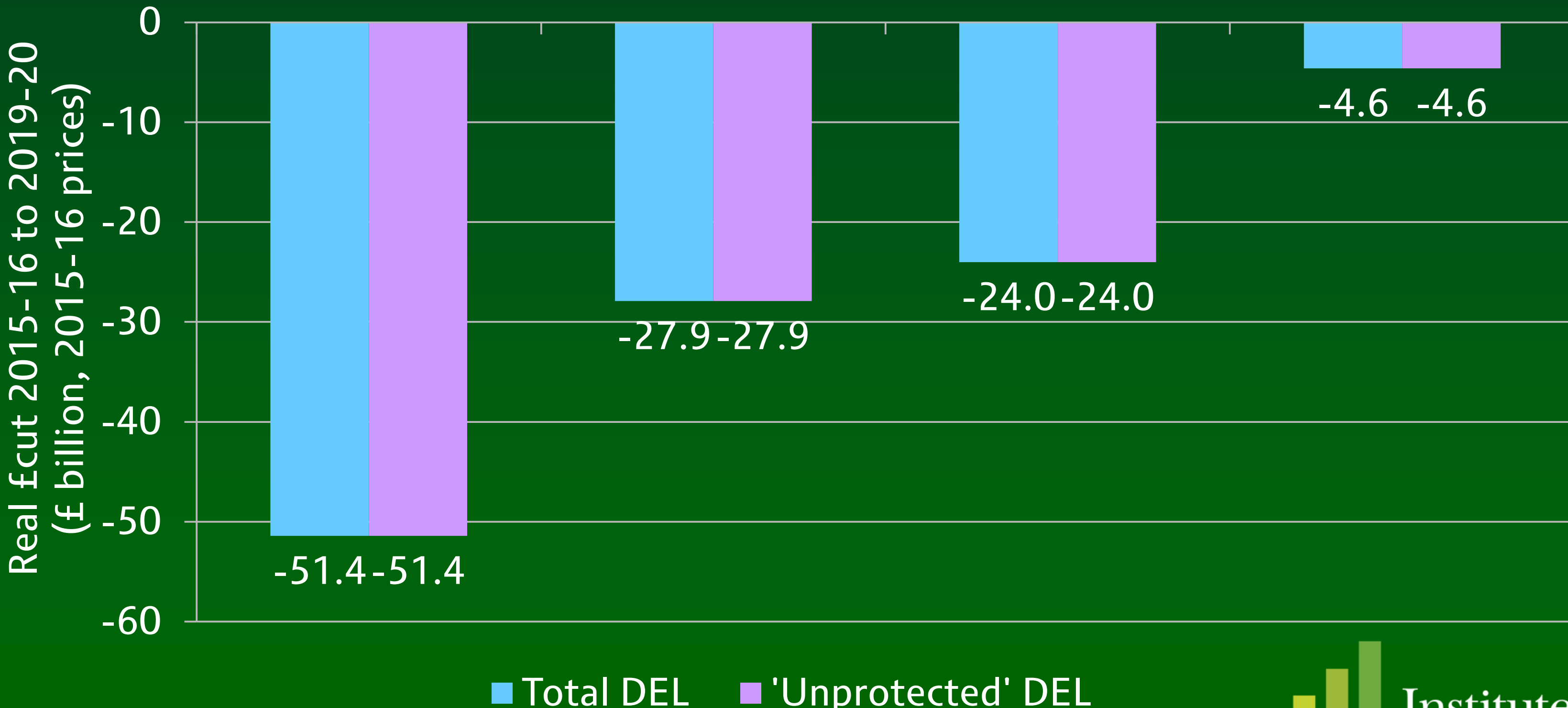

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Some possible alternative scenarios (£bn figure)

"Coalition policy"	**"Same rate DEL"**	**"Osborne max"**	**"Current budget balance"**
PSNB = -1.0% GDP	PSNB = -1.0% GDP	PSNB = 0% GDP	PSNB =1.2% GDP
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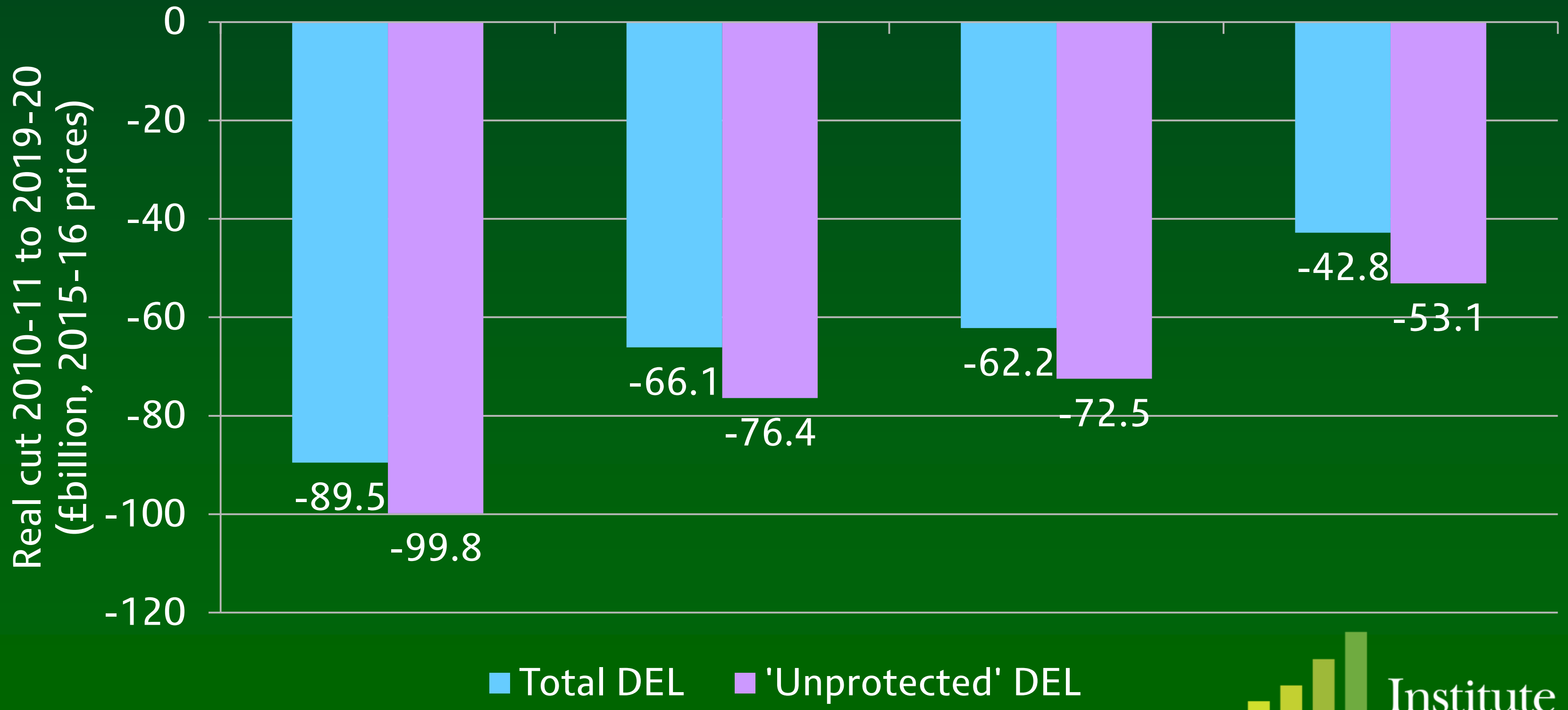

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