Autumn Statement 2014: halfway to deficit elimination?

Carl Emmerson

Presentation to BBC journalists, New Broadcasting House, London,
20th November 2014

http://www.ifs.org.uk/tools_and_resources/budget/498

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Summary

• Roughly halfway through a large fiscal consolidation
  – Budget plans imply deep spending cuts through to 2018–19 in order to eliminate the deficit in that year
  – spending cuts and tax rises largely implemented as planned so far but weak growth has meant deficit has not fallen as forecast in 2010
• Autumn Statement: economic and fiscal forecasts
  – growth forecasts might not change significantly from Budget
  – deficit likely to be revised up due to disappointing tax revenues
  – compliance with coalition’s fiscal targets unlikely to be affected, but total deficit elimination might slip by one year to 2019–20
• Autumn Statement: measures
  – lots of giveaways already announced for April 2015
  – not clear what else to expect
Spending and revenues, with action

Public sector receipts and total managed expenditure, 1997 to 2018

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Spending and revenues, with action
Public sector receipts and total managed expenditure, 1997 to 2018

The policy response

**March 2014:** 8.8% national income (£152bn) hole in public finances, offset by 10.3% national income (£178bn) consolidation over 9 years

Spending and revenues, with action

Public sector receipts and total managed expenditure, 1997 to 2018

Now aiming for tighter fiscal position than planned pre-crisis

Spending and revenues, with action

Public sector receipts and total managed expenditure, 1997 to 2018

Implies tax burden slightly above pre-crisis level and at 30 year high

Spending and revenues, with action

Public sector receipts and total managed expenditure, 1997 to 2018

Revenues - without action
Spending - without action
Revenues - with action
Spending - with action

% of national income


Implies spending back to 2002 levels, but....
... high spending on social security and debt interest implies relatively little for public services

- Public service spending reduced to the share of national income seen at the end of the 1990s (technically: lowest since at least 1948)

Note: figure shows total public spending less spending on social security benefits and debt interest.
Deficit reduction: eliminated in 2018–19?

March 2014 Budget (old basis)

Source: Office for National Statistics and Office for Budget Responsibility.
Public finance revisions

• Two big accounting changes since the March Budget have affected measures of the public finances

1) ONS review of public finance statistics
   – revised treatment of some financial sector interventions (shares held; Special Liquidity Scheme transfer; Asset Purchase Facility)

2) Move to the 2010 European System of Accounts (ESA10)
   – Lots of changes (including: Network Rail moved from private sector to central government; changed treatment of contributions to underfunded local government pension scheme, transfer of Royal Mail Pension Plan, 3G and 4G spectrum auction proceeds; moved research and development and Single Use Military Equipment spending from current spending to capital spending)

• Changes increase public sector net debt, increase GDP and increase public sector net debt/GDP

• Borrowing slightly reduced in most years
Deficit reduction: on new basis deficit rose in 2012–13, but is now slightly smaller

Source: Office for National Statistics and Office for Budget Responsibility.
Deficit reduction: better late than never?

Source: Office for National Statistics and Office for Budget Responsibility.
AS: only small revisions to growth forecasts?

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AS: but deficit might move upwards?

• March Budget forecast borrowing of £86.6 billion in 2014–15, down from outturn of £98.0 billion in 2013–14 (on new basis)
  – but over first half of this financial year borrowing is 10% higher than same period last year, due to low growth in receipts
  – (October data released tomorrow, 21 November)
• April 2013 cut to top income tax rate depressed revenue growth in the first half of 2014–15 and will boost it in the second half
• But other developments might persistently reduce revenues
  – weaker-than-expected earnings growth
  – lower-than-expected residential housing transactions
  – lower oil and gas prices
• (Slightly offset by lower RPI inflation reducing debt interest spending)
Compliance with the coalition’s fiscal targets?

• Fiscal mandate
  – balance or better on cyclically-adjusted current budget by end of forecast horizon (2018–19 in Budget, 2019–20 in AS)
  – sensible and in Budget being met with a year to spare (in 2017–18)

• Supplementary debt target
  – debt should fall as a share of national income between 2014–15 and 2015–16
  – not sensible and currently on course to be missed

• “Welfare-in-scope” spending cap
  – if forecast welfare-in-scope spending exceeds Budget forecast due to policy change, or cap plus margin due to forecasting change, rule states that benefits should be cut or cap raised by vote in parliament
  – OBR to provide first judgment in Autumn Statement

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Compliance with new fiscal targets?

- Chancellor also wants overall deficit eliminated in next parliament
  - Budget forecast this to be achieved in 2018–19
- New coalition fiscal targets expected in Autumn Statement
  - but Liberal Democrats don’t want to eliminate total deficit
  - perhaps fix target date for fiscal mandate (at 2018–19) rather than current rolling target
- If borrowing forecasts deteriorate slightly
  - fiscal mandate likely met by 2018–19 (not 2017–18 as Budget)
  - remain on course to miss supplementary debt target
  - likely to comply with welfare cap (assuming Government doesn’t announce net welfare spending giveaway)
  - eliminating the total deficit might be pushed back to 2019–20, with the squeeze on spending extended by one year to achieve this?
AS: measures already announced for April 2015

• 1% uprating of most working age benefits and higher rate threshold, inheritance tax threshold frozen
• Personal allowance increased by £380 to £10,500
• Starting 10p rate for savings income cut to 0p and extended
• New income tax break for some married families
• Abolition of NICs for those aged under 21
• Main rate of corporation tax rate cut from 21p to 20p
• Fuel duties frozen in cash terms (until September 2015)
• New flexibility for DC pension withdrawal
AS: new measures?

• Tax cut for unannuitised DC pensions at death
  – announced by Mr Osborne at Conservative Party conference but to be confirmed in the Autumn Statement

• In-year cuts to departmental spending?
  – cutting newly identified wasteful or low-value spending welcome
  – but if motivated by desire to help ensure deficit in 2014–15 is lower than in 2013–14 then merit less clear (especially if just pushing spending from 2014–15 into 2015–16)

• Campaign to abolish Air Passenger Duty for those aged under 12

• Further increases in personal allowance?

• Anti-avoidance measures?
How might the public finances differ under Labour?

• “The next Labour government will … deliver a surplus on the current budget and falling national debt in the next Parliament”
  – (Liberal Democrats have a similar target)
• Coalition planning £26 billion current budget surplus in 2018–19
  – plan involves £9 billion of real spending cuts in 2015–16 and implies a further £38 billion of real cuts over following 3 years
• Labour could cut taxes and/or increase day-to-day spending by up to £26 billion in 2018–19 and meet their pledge in that year
  – could also spend more on investment
  – but target still requires a sizeable dose of austerity in the next parliament
• And a Labour government might aim to over-achieve its target
  – trade off between benefits of higher spending/lower tax and cost of debt falling less rapidly
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