The Institute for Fiscal Studies

ELECTION BRIEFING 2001

SERIES EDITORS: TOM CLARK AND ANDREW DILNOT

OVERALL TAX AND SPENDING

Carl Emmerson
Chris Frayne

IFS Election Briefing Note No. 2
May 2001

Funding

We would like to thank the Economic and Social Research Council (www.esrc.ac.uk) for supporting this work through funding for the ESRC Centre for the Microeconomic Analysis of Fiscal Policy (Grant number M544285002).

This document is published on the IFS website, www.ifs.org.uk/election/index.shtml (May 2001).

.

Overall tax and spending

This Briefing Note looks at the current government's record on public borrowing, taxation and overall public spending.

1. Public borrowing and the fiscal rules

Since coming to office in May 1997, the government has stated that it will aim to adhere to two fiscal rules – the 'golden rule' and the sustainable investment rule – when planning levels of taxation and public spending. The golden rule states that the government should only borrow to invest. It constrains the government to running a surplus on the current budget over the economic cycle – in other words, over the economic cycle, government revenues will exceed current spending: any overall deficit must be smaller than investment spending.

The sustainable investment rule places a constraint on the level that government debt can reach, restricting it to a 'stable and prudent' level,[1] which the Chancellor Gordon Brown has defined as 40% of GDP. The aim is to avoid what the government considers to be unfairly high debt interest payments in the future.[2]

According to government projections for both taxes and spending, both the fiscal rules look set to be met. Figure 1 shows the surplus on current budget and the cyclically adjusted surplus on current budget from 1966–67 to 2003–04. It shows that the golden rule has been met since 1998–99 and is set to continue being met until 2003–04, when the cyclically adjusted surplus on current budget is predicted to be 0.6% of GDP. Under currently planned levels of investment, meeting the golden rule is sufficient to ensure that the sustainable investment rule is met.

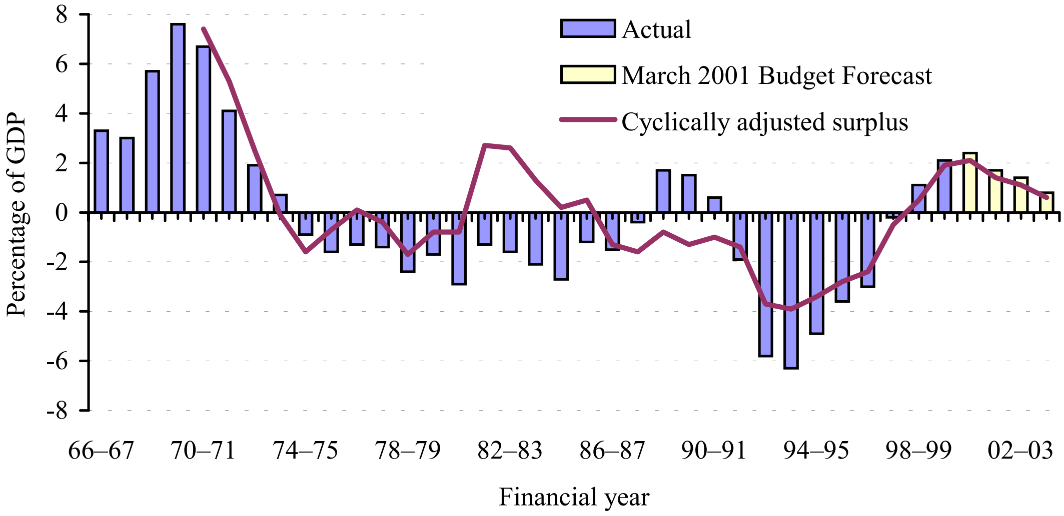
The level of public sector net borrowing can be seen in Figure 2 as the amount by which spending lies above government revenues. Thus, between 1990–91 and 1997–98, public sector net borrowing was positive due to spending being higher than receipts, while, since 1998–99, receipts have been higher than spending, leading to negative borrowing – or debt repayment. The government has been in deficit for most of the last thirty years. Indeed, between 1970–71 and 1998–99, the government was only in surplus in 1988–89 and 1989–90, when the economy was operating at above-trend levels of output.

---

[1] Source: HM Treasury, *Economic and Fiscal Strategy Report, June 1998*, Cm. 3978, The Stationery Office, London, 1998 (http://www.hm-treasury.gov.uk/pub/html/efsr/3978.htm).

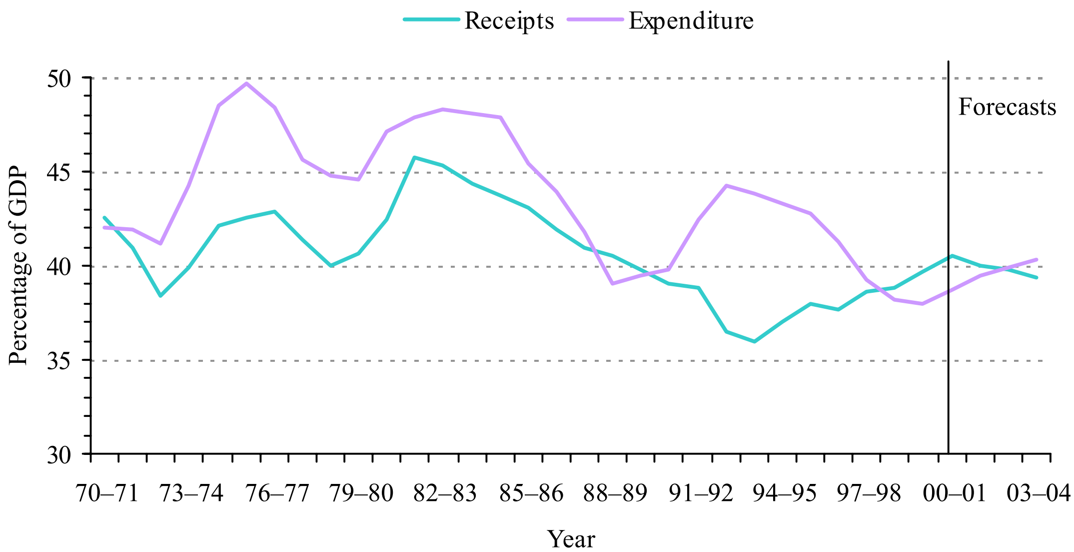
[2] For a more detailed discussion of the fiscal rules, see C. Emmerson and C. Frayne, *The Government's Fiscal Rules*, IFS Briefing Note no. 16, 2001 (http://www.ifs.org.uk/public/bn16.pdf).

Figure 1. Meeting the golden rule? Current budget surpluses and deficits as a percentage of GDP, 1966–67 to 2003–04



Note: Measures exclude the windfall tax and associated spending.
Source: HM Treasury, *Public Finances Databank, 22 March 2001*, HM Treasury, London, 2001.

Figure 2. Taxation and spending under current government plans, 1970–71 to 2003–04



Note: Measures exclude the windfall tax and associated spending.
Sources: Forecast for 2001–02 to 2003–04 taken from HM Treasury, *Financial Statement and Budget Report, March 2001*, Hc279, The Stationery Office, London, 2001 (http://www.hm-treasury.gov.uk/budget2001/index.html); HM Treasury, *Public Finances Databank, 22 March 2001*, HM Treasury, London, 2001.

The recession of the early 1990s meant that, by 1993–94, public sector net borrowing had reached 7.8% of GDP. Since then, spending restraint and tax increases pursued by the Conservatives after 1993–94 and continued by Labour in the first three years of this Parliament have put the public finances back into surplus. Figure 2 shows government revenues and government spending as a proportion of GDP. Between 1996–97 and 2000–01, government revenues have risen by 2.9% of GDP from 37.6% of GDP to 40.5% of GDP, while spending has decreased by 2.5 percentage points – from 41.2% of GDP in 1996–97 to 38.8% by 2000–01. This means that, over four years, public sector net borrowing fell by a total of 5.3% of GDP.[3] While the forecasts suggest that the government will move back into deficit by 2003–04, this is still consistent with the two fiscal rules, since borrowing is planned to be less than investment spending and the net debt ratio is planned to be comfortably below 40% of GDP.

Table 1 breaks down the movements in taxation and spending since 1979. Overall under the Conservatives from 1979 to 1997, taxes increased in real terms by 1.8% a year on average, while overall spending increased by an average of 1.7% a year, again in real terms. Both of these numbers correspond to a decrease in taxation and spending as a share of GDP, as the economy grew on average by 2.1% during this period. Since taxes increased more quickly than public spending, there was a small reduction in public sector net borrowing over the period.

Table 1. Changes in taxation and spending, different periods

	Annualised average real increase (%)	
	Total taxes	**Total spending**
Comparisons across Parliaments		
This Parliament: *April 1997 to March 2001*	4.8	1.3
This Parliament: *April 1997 to March 2002*	4.1	1.9
Last Parliament: *April 1992 to March 1997*	2.0	2.0
Conservative years: *April 1979 to March 1997*	1.8	1.7
of which:		
John Major's period in office: *April 1991 to March 1997*	1.3	2.6
Margaret Thatcher's period in office: *April 1979 to March 1991*	2.0	1.2
Other periods of interest		
Current plans: *April 2001 to March 2004*	1.5	3.8
First two years of this Parliament: *April 1997 to March 1999*	4.5	–1.0
Five-year increase from start of first CSR: *April 1999 to March 2004*	2.9	3.8

Notes: Measures exclude the windfall tax and associated spending. For the periods in office of each political party and each Prime Minister, we assign financial years according to who was in office for the majority of months in that financial year. For example, Margaret Thatcher, who was Prime Minister from May 1979 to November 1990, is assumed to have determined public spending in the years from 1979–80 to 1990–91 inclusive.
Sources: HM Treasury, *Public Finances Databank, 22 March 2001*, HM Treasury, London, 2001; HM Treasury, *Financial Statement and Budget Report, March 2001*, Hc279, The Stationery Office, London, 2001 (http://www.hm-treasury.gov.uk/budget2001/index.html).

[3] These and other figures are subject to rounding errors.

By the end of 2000–01, taxes had increased by an average 4.8% a year since Labour came to power in 1997, with a corresponding average increase in spending of just 1.3% a year. It is worth noting that, while the government is now taking a larger proportion of GDP in tax, GDP growth has been sufficiently strong to ensure that the private sector's net income is forecast to have grown in real terms by an average of 1.7% a year between April 1997 and March 2001. The first two years of the Labour government saw taxes increase by 4.5% per year, while spending fell by an average of 1.0%. This led to the improvement in public sector net borrowing shown in Figure 2 and the golden rule being met, as shown in Figure 1.

As a result of the improvement in the public finances being more than sufficient to meet the government's fiscal rules, the current government has been able to plan for spending over the next three years to grow significantly more quickly than tax revenues. From April 2001 to March 2004, taxes are forecast to grow by just 1.5% a year in real terms, while public spending is forecast to grow by an average 3.8% a year. Essentially, this relatively low growth in taxes and high growth in public spending is being paid for by the high growth in taxes and low growth in public spending seen over the period from April 1997 to March 2000, when taxes increased by 2.2% of GDP while spending fell by 3.3% of GDP.

These estimates are based on the Treasury's cautious assumption that the economy can sustain 2¼% trend growth. It is possible that the trend rate of growth could be higher. The Treasury's own central forecast of the trend rate of growth is 2½% a year.[4] Moreover, one of the Treasury's performance targets is 'By 2004, to raise the trend rate of growth from the current estimate of 2.5%'.[5] Were the trend rate of growth to be greater than 2¼%, the next Chancellor would be in a position to implement discretionary tax cuts or spending increases. For example, if the actual trend rate of growth between 2000–01 and 2003–04 were 2½% a year, this would allow a fiscal loosening of £4½bn, while 2¾% would allow as much as £9bn.[6]

Risks

While the government is set to increase spending considerably over the next four years, remaining in surplus on current budget is dependent on the economy performing as forecast. In particular, if growth turns out to be lower than expected (for example, due to a world-wide recession), tax revenues are likely to be lower and cyclical spending – such as social security – higher than planned. If this turned out to be a structural, rather than a cyclical, downturn, then it is possible that the golden rule could be broken. Such an unexpected downturn occurred in the late 1980s and early 1990s, when the government

---

[4] Source: HM Treasury, *Trend Growth: Prospects and Implications for Policy*, HM Treasury, London, 2000 (http://www.hm-treasury.gov.uk/pdf/1999/trendgrowth.pdf).

[5] Source: HM Treasury, *2000 Spending Review: Public Service Agreements, July 2000*, Cm. 4808, HM Treasury, London, 2000 (http://www.hm-treasury.gov.uk/sr2000/psa/psa.pdf).

[6] Example assumes that 60% of the additional GDP arising from the increase in trend rate of growth is received in taxes.

spent the extra revenue received when the economy was growing strongly, only to suffer historically large deficits when the recession began.

But it is important to remember that the public finances are now in historically very good shape. In addition, the forecasts' cautious assumptions make it less likely that the government will find itself in an extremely difficult financial position. To argue that the UK government is not adequately prepared for a possible structural downturn is to argue that either taxes should have increased more rapidly or public spending grown more slowly over the last four years.

It seems, then, that the government is likely to be in a position where it can afford the large increases in spending planned to take effect between now and 2003–04. While these increases in spending should lead to some improvement in the quality of service provided by, for example, the NHS and local schools, unless the perceived improvements are significant, the government may feel under pressure to increase spending further as a percentage of GDP. If spending is to grow more quickly than GDP beyond 2003–04, this would require further tax increases. For example, the next government could decide that it wants to continue increasing public spending at the rate planned over the next three years of 3.8% a year. Assuming a trend rate of growth of 2½% a year, this would require tax rises of £5bn a year in 2000–01 prices over and above the additional revenues resulting from taxes remaining constant as a share of GDP. Alternatively, a future government might decide that it wanted to increase public spending at the rate originally planned in the July 2000 Spending Review of 3.3% a year. On an equivalent basis, this would still require increases in taxes of £3bn a year beyond March 2004.

2. Why have tax revenues increased?

This section looks in detail at why tax revenue as a share of GDP is higher than it was when Labour came into power in May 1997. The main conclusions are:

- Government receipts in 2001–02 are forecast to be 2.4% of GDP higher than they were in 1996–97. This is equal to £24.3bn.
- Budgetary policies implemented by this government have increased taxes by £5.7bn. The first two years of this Parliament saw larger tax increases, which have since been partially offset by tax cuts.
- Some of these policies were announced by the previous Conservative government. New policies announced and implemented by this government have actually reduced tax by £1.6bn.
- After changes to the accounting system and higher-than-expected inflation are taken into account, tax revenues in 2001–02 are forecast to be £13bn higher than they were forecast to be in the November 1996 Budget.

How has the level of taxes changed since 1997?

Since Labour came to office, total public sector receipts as a percentage of GDP have increased by 2.9 percentage points from 37.6% to 40.5% of GDP.

This is equivalent to £27.1bn in 2000–01 prices. Taking the Parliament over the full five years to 2001–02, by which time Budget measures for this financial year will be fully effective, the latest forecasts suggest that the equivalent increase is 2.4 percentage points, which, in 2001–02, is equal to £24.3bn. The share of GDP taken in tax can increase either because of discretionary government policy or because of changes to the overall economy with the tax system in place. For instance, strong economic growth increases income tax revenues, corporation tax revenues and capital gains tax receipts by more than GDP growth, leading to an increase in tax revenues as a share of GDP without any discretionary changes by the government.

More than half the increase in total tax revenues since 1996–97 is made up of higher income tax receipts. Table 2 shows that, while the government received income tax and capital gains tax revenues equal to 9.1% of GDP in 1996–97, by 2000–01 this had increased to 11.1 percentage points. By next financial year, this is expected to fall to 10.7 percentage points. Interestingly, despite significant increases in the rates of excise duties levied on fuel and tobacco, their combined effect has not been to increase the amount of revenues received by the government expressed as a share of national income.[7]

Table 2. Tax revenues as a percentage of GDP, 1996–97, 2000–01 and 2001–02

	1996–97	2000–01	2001–02
Income tax and capital gains tax	9.1	11.1	10.7
Corporation tax	3.6	3.4	3.8
Value added tax	6.1	6.2	6.2
National Insurance contributions	6.1	6.4	6.3
Fuel taxes	2.2	2.4	2.3
Tobacco taxes	1.0	0.8	0.8
Alcohol taxes	0.7	0.7	0.7
Other taxes	6.3	6.8	6.7
Net taxes and social security contributions	**35.2**	**37.7**	**37.4**
Other receipts and accounting adjustments	2.4	2.8	2.7
Total current receipts	**37.6**	**40.5**	**40.1**

Source: HM Treasury, *Public Finances Databank*, *22 March 2001*, HM Treasury, London, 2001.

Alternative measures of the tax burden

The government's preferred measure of the tax burden – net taxes and social security contributions – is also shown in Table 2. This excludes various items that are not directly under government control, such as the revenue from public sector corporations and also adjustments for items that the government believes should score as tax credits but that, under international accounting conventions, score as public spending.[8] There are two problems with this series. First, using current receipts seems more intuitively useful since

[7] For a more detailed discussion of indirect taxes, see Election Briefing Note 5, Section 2.

[8] Examples of these include the working families' tax credit and, previously, mortgage interest tax relief.

deducting total spending from this measure leaves public sector net borrowing. Second, even if we would otherwise accept that the working families' tax credit (WFTC) should be counted as negative tax rather than spending, the inconsistency arising from treating its predecessor, family credit, differently from WFTC makes it a less informative measure. The adjustment for tax credits explains the majority of the increase in 'other receipts and accounting adjustments' seen since 1996–97.

The government has also pointed to the fact that 'the direct tax burden on a typical family with two children will fall in 2001–02 to its lowest level since 1972'.[9] There are a number of problems with this measure of the 'tax burden'. First, it is very difficult to work out who constitutes a 'typical family'. Second, and more important, if there is such a thing as a 'typical family', while they may care about the total amount of tax that they pay, they are unlikely to care about the amount of direct tax that they pay. If a government decides to increase taxes by, for example, £2bn, it seems irrelevant for the purposes of the overall measure of tax revenues whether it chooses to increase income tax by £2bn or VAT by £2bn. It is more plausible that it is total tax that is of more interest to individuals than simply the increase in just one type of tax. In fact, they may care more about their disposable income after tax, which will include social security benefits such as child benefit and the basic state pension.[10]

One further comparison of the current level of tax receipts as a share of GDP is with those planned in the last Budget of the previous Parliament. This forecast tax receipts as a share of GDP through to 2001–02. Direct comparisons of the level of taxes as a share of GDP in the November 1996 Budget cannot be made against more recent figures, since the UK has, in the interim period, switched to a new accounting system which has increased measures of GDP and hence reduced, for example, tax revenues as a share of GDP.[11] Once this is taken into account, it is clear that, while the November 1996 Budget did forecast an increase in tax revenues as a share of GDP, the planned increase was smaller than that which subsequently occurred. In 2000–01, taxes were £26bn higher than forecast in the November 1996 Budget. However, inflation between 1996–97 and 2000–01 was higher than had been forecast in November 1996 – if actual inflation had been known, the estimates of nominal taxes in 2000–01 would have been higher and so the difference between the November 1996 plans and the 2000–01 outcomes would have been £6bn lower. Hence the real increase in taxes is £20bn. For 2001–02, the real increase in taxes falls to £13bn, as reductions in taxation, such as the children's tax credit, are due to be introduced in April 2001.[12]

---

[9] Source: HM Treasury, *Financial Statement and Budget Report, March 2001*, Hc279, The Stationery Office, London, 2001 (http://www.hm-treasury.gov.uk/budget2001/index.html).

[10] For a discussion of the effect across the income distribution of all of these measures combined, see Election Briefing Note 5, Section 3.

[11] See HM Treasury, *Pre-Budget Report: November 1998*, Cm. 4076, The Stationery Office, London, 1998 (http://www.hm-treasury.gov.uk/pub/html/prebudgetNov98/407600.htm).

[12] These numbers update the figures contained in Table 3.11 of A. Dilnot, C. Emmerson and H. Simpson (eds), *The IFS Green Budget: January 2001*, Commentary no. 83, IFS, London, 2001 (http://www.ifs.org.uk/gbfiles/gb2001.shtml).

What has the effect of Budget measures been on tax revenues?

The extent to which actual Budget announcements rather than changes in the economy led to the increase in taxes of £24.3bn over this Parliament is shown in Table 3. The table shows the total effect that Budgets in the 1987–92 and 1992–97 Parliaments had on tax revenues in the 1992–97 Parliament, and any additional effect they had in the current Parliament. Measures announced between 1992 and 1997 included the introduction of the fuel and tobacco escalators, which were to increase duty rates by more than inflation every year. These were included in the November 1996 Budget forecasts for government revenues throughout the forecast period, which ran until 2001–02. Budget measures announced during the 1992–97 Parliament meant that revenues by the end of that Parliament were £19.6bn higher than they would

Table 3. Change in tax revenues in the previous Parliament and the current Parliament resulting from Budget announcements (£ billion 2001–02)

Announcement	**Last Parliament to 1996–97**	**Current Parliament to 2001–02**
	Effect over and above any effect on previous Parliament	
Conservative Budgets from 1987–92 and 1992–97 Parliaments		
Conservative Budgets from 1987–92 Parliament	–1.8	n/a
Conservative Budgets from 1992–97 Parliament	19.6	7.4
Labour Budgets after the 1997 election		
Summer 1997 Budget	n/a	5.6
Spring 1998 Budget	n/a	3.8
Spring 1999 Budget	n/a	–2.5
Autumn 1999 Pre-Budget Report	n/a	–4.0
Spring 2000 Budget	n/a	–0.6
Autumn 2000 Pre-Budget Report	n/a	–0.6
Spring 2001 Budget	n/a	–3.3
Total Labour Budgets during current Parliament	n/a	–1.6
Total effect of Budget changes on taxes over Parliament	**17.9**	**5.7**
Actual change in revenues over Parliament	**–12.0**	**24.3**

Notes: Figures stated are for the effect on revenues in 1996–97 and 2001–02 respectively. All figures have been uprated to 2001–02 prices using nominal GDP growth. Reductions to the generosity of mortgage interest tax relief that occurred in the Budgets in Spring 1993, Autumn 1993, Summer 1997 and Spring 1999 are not included since the relief counts as government expenditure rather than tax forgone in the National Accounts. Measures announced in the previous Parliament include the effect of a 5% fuel escalator and a 3% tobacco escalator. Measures announced in this Parliament include the Summer 1997 Budget decision to increase these escalators to 6% and 5% respectively and the November 1999 Pre-Budget Report decision to abolish both these escalators. Any further changes in excise duties are treated as one-off changes in the year they occurred. For more details, see A. Dilnot, C. Emmerson and H. Simpson (eds), *The IFS Green Budget: January 2001*, Commentary no. 83, IFS, London, 2001 (http://www.ifs.org.uk/gbfiles/gb2001.shtml).

Sources: HM Treasury, *Financial Statement and Budget Report*, various years (most recent – http://www.hm-treasury.gov.uk/budget2001/index.html); authors' calculations.

have been in the absence of any Budget announcements.[13] Despite these increases, actual government revenues fell by 1.2% of GDP in the last Parliament; in today's prices, this is equivalent to £12.0bn. This discrepancy is explained by factors, other than taxation policy, that affect revenues, such as economic growth.

Measures announced in the 1992–97 Parliament increased revenues in 2001–02 by an additional £7.4bn. Budget announcements since 1997 have had the net effect of reducing overall tax revenues by £1.6bn, so that the overall increase in revenues directly attributable to discretionary measures announced by Labour, or by the Conservatives and implemented by Labour, is £5.7bn. In addition, this is the effect at the end of the Parliament; the first two Budgets of this Parliament increased taxes by more than this amount, before subsequent announcements reduced them. For example, if there had been no more announcements after the March 1998 Budget, then announcements in this Parliament would have increased taxes by £9.3bn on top of the £7.4bn of announced measures from the previous Parliament.

What figure best represents the increases in taxation due to government policy?

The total effect of Budget changes on taxes over the period 1997–2002 was an increase of £5.7bn. The net effect of measures announced under Labour is a reduction of £1.6bn. Both of these numbers represent an estimate of the effect that Budget measures under Labour have had on tax revenues. Although the £5.7bn figure includes £7.4bn of increases announced by the Conservatives between 1992 and 1997, it represents the full value of the announcements made by the Conservatives and introduced by Labour as well as any new Labour policy decisions. The £1.6bn reduction due to Labour Budgets is less informative as it counts the reversal of policies announced by the Conservatives but reversed by Labour as reductions in taxation even if these policies were never actually implemented.

Arguably, the most informative measure of the increase in tax due to government policy is the £24.3bn total figure. Although this includes increases due to the workings of the economy and also partially flows from the government's chosen macroeconomic policy, it is nevertheless the case that the government could have made Budget announcements to reduce taxes in order to keep tax revenues as a share of GDP constant over time, if it had so wanted. What the current government has chosen to do is to use the increase in government revenues to reduce national debt and, from April 2000 to March 2003, to plan increases in public spending that are greater than the planned increase in taxes. The next section looks in more detail at the current government's record on public spending over the Parliament.

[13] Most of this increase came from the measures announced in the Spring and Autumn 1993 Budgets, which introduced VAT on fuel, higher employee National Insurance contributions, a freezing of income tax allowances and a reduction in the generosity of the married couple's allowance. These Budgets also introduced the fuel and tobacco escalators, which committed the government to increasing excise duties on fuel and tobacco in real terms by 5% and 3% respectively each year.

3. What has happened to public spending?

As we have shown, government spending is set to have increased by 1.9% per year over the period 1997–2002. This is lower than the growth seen under the Conservatives during their 18 years in office and is considerably lower than the increase in taxation seen over the current Parliament. One reason for this is that Labour's years in office have occurred at a time of high growth. From 1996–97 to 2000–01, GDP growth is forecast to have averaged around 2.9% compared with a long-run average over the last forty years of around 2.5%. High growth has reduced the need for cyclical spending, such as expenditure on unemployment benefit, thus leading to lower spending overall. Moreover, higher-than-expected revenues have allowed substantial debt repayments. This helps contain spending by lowering debt interest payments in subsequent years.

For the first two years of the Parliament, government policy worked in the same direction as the economy. When Labour came to office in May 1997 they chose to bind themselves to Conservative spending plans as outlined in Ken Clarke's November 1996 Budget, which represented historically low increases in government spending. During those first two years, total government spending fell by an average of 1.0% per year. The July 1998 Comprehensive Spending Review and the July 2000 Spending Review outlined more ambitious plans for government spending.[14] In the financial year 1999–2000, much of this planned increase in spending failed to materialise, since several government departments failed to deliver the increases in spending that had been allocated to them. In total, government departments spent £2bn less in 1999–2000 than their total allocation.[15]

The plans for government spending laid out in the July 2000 Spending Review, combined with other announcements made in the November 2000 Pre-Budget Report and the March 2001 Budget, mean that public spending is now planned to grow by 3.8% a year in real terms. Election Briefing Note 3 looks in detail at individual spending areas. We now turn to international comparisons of public spending.

How do we compare internationally?

This Briefing Note has looked at government revenues and spending over time. The size of government in the UK can also be compared with that in other countries. This can be done by looking either at government revenues as a share of GDP or at government spending as a share of GDP. Since the difference between these two series – public borrowing – is essentially deferred taxation, it seems sensible to compare public expenditure rather than

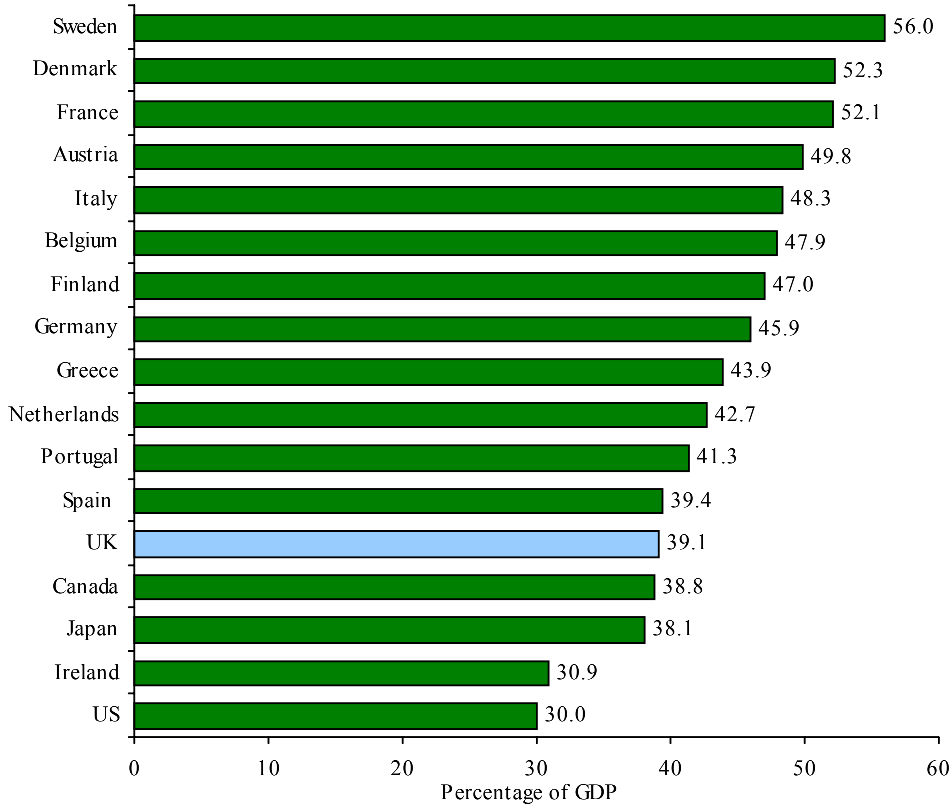
---

[14] HM Treasury, *Comprehensive Spending Review, July 1998*, HM Treasury, London, 1998 (http://www.hm-treasury.gov.uk/pub/html/csr/index.html); HM Treasury, *Spending Review 2000*, HM Treasury, London, 2000 (http://www.hm-treasury.gov.uk/sr2000/index.html).

[15] For more details, see A. Dilnot, C. Emmerson and H. Simpson (eds), *The IFS Green Budget: January 2001*, Commentary no. 83, London, IFS, 2001 (http://www.ifs.org.uk/gbfiles/gb2001.shtml).

taxation. Compared with other EU and G7 countries, the UK has low government spending, as is shown in Figure 3. In 1999, general government total outlays, as measured by an OECD definition, represented 39.1% of GDP. The UK was the fifth lowest spender amongst the 17 EU (excluding Luxemburg) and G7 countries in 1999. Of the countries shown in the graph, only Canada, Japan, the Republic of Ireland and the US have lower levels of government spending. France, Denmark and Sweden all have government spending above 50% of GDP. Public spending as a share of GDP will depend in part on the point of the economic cycle that the economy is at, so it is useful to compare countries over a longer time-frame. Taking the average level of public spending over the last five years still shows the UK having the fifth lowest level of public spending out of the 17 countries shown in the graph.

Figure 3. Government spending as a percentage of GDP, 1999



Notes: The graph gives figures for total government outlays, which equal current outlays plus net capital outlays. Figure for the US includes outlays net of surpluses of public enterprises.
Source: OECD, *Economic Outlook*, December 2000, Annex Table 28.