

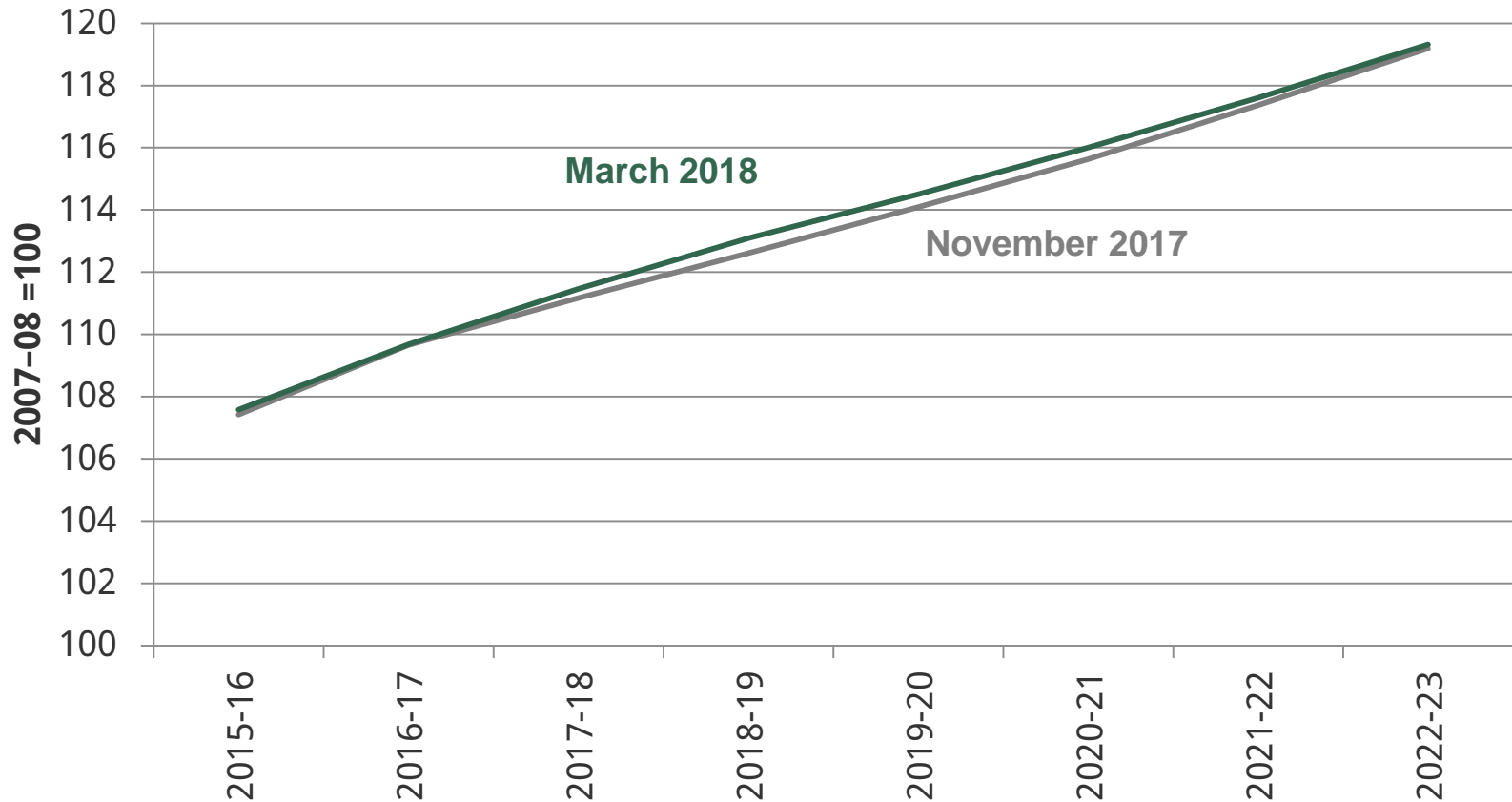
Spring Statement 2018: The lost decade

Thomas Pope

Wednesday 14th March 2018

Very small improvement in the growth forecast yesterday

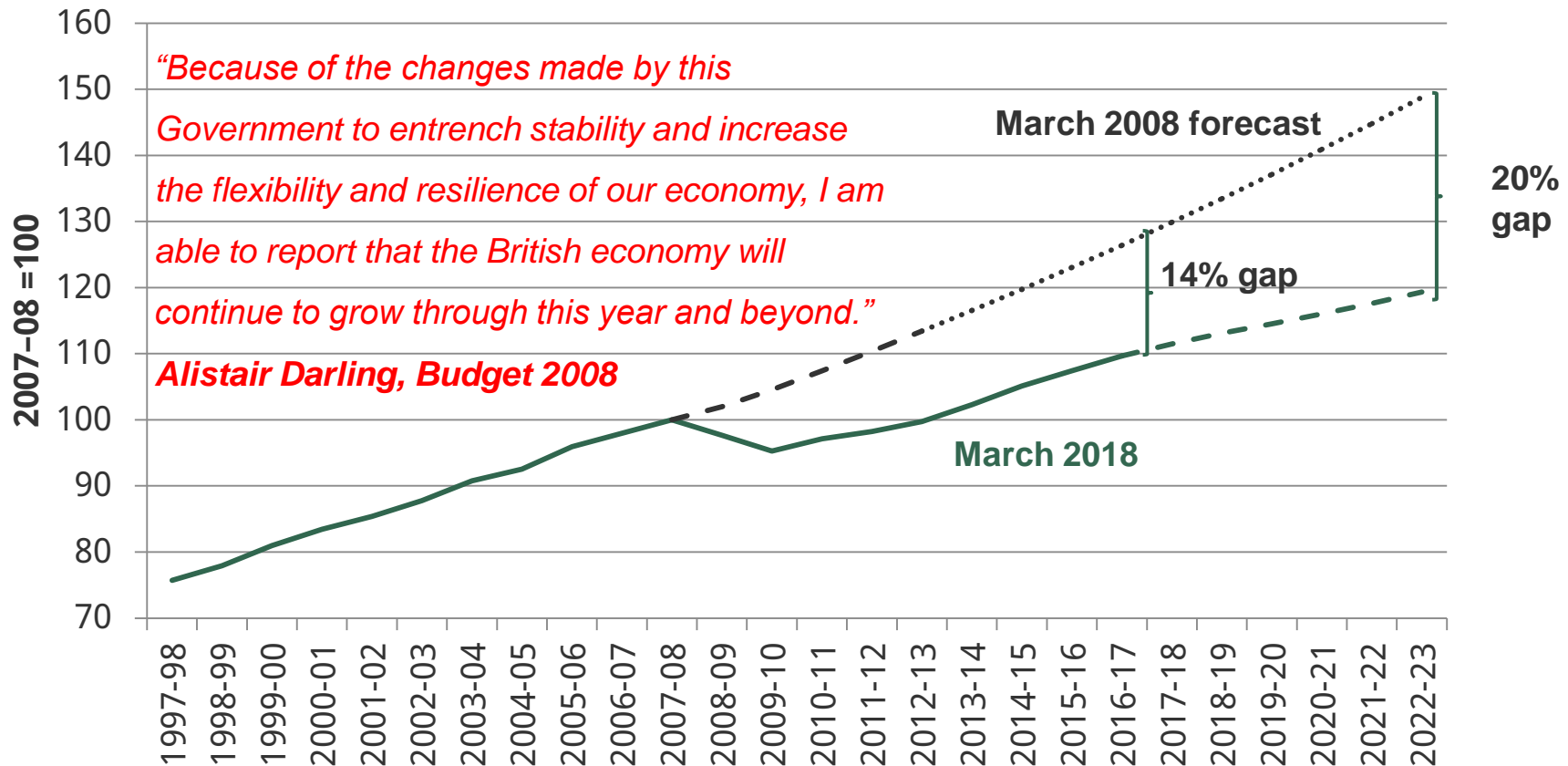
GDP growth forecasts: November 2017 and March 2018



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

Economic growth has been much worse than was expected in March 2008

Real GDP growth forecasts: March 2008 and March 2018

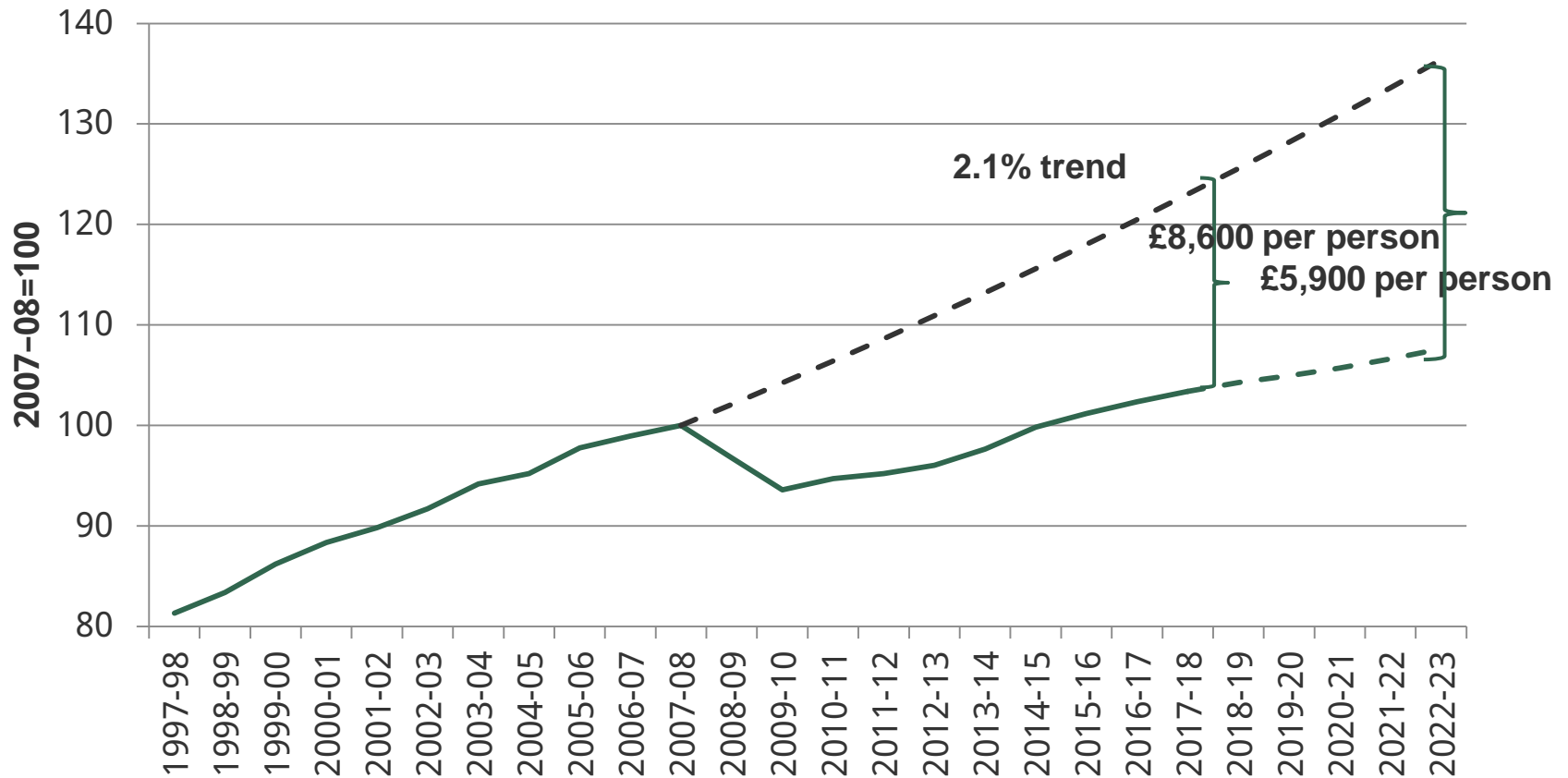


Source: Office for Budget Responsibility *Economic and Fiscal Outlook* and *Public finances databank*

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

Which means lower than expected living standards

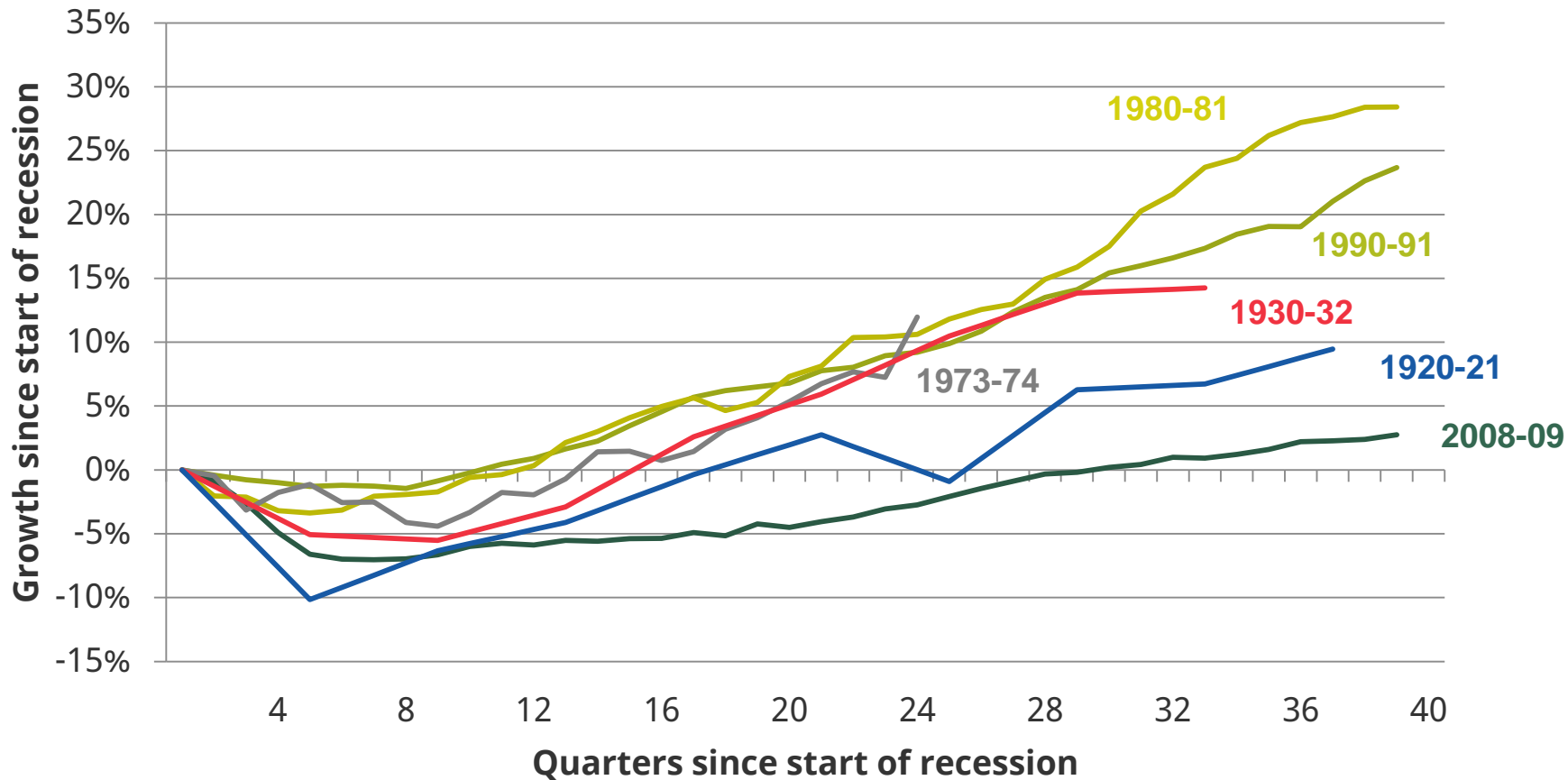
GDP per capita: Latest forecasts and pre-2008 trend



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

Slower recovery than other recessions

GDP per capita growth since the start of recessions



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

Earnings have fared even worse



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

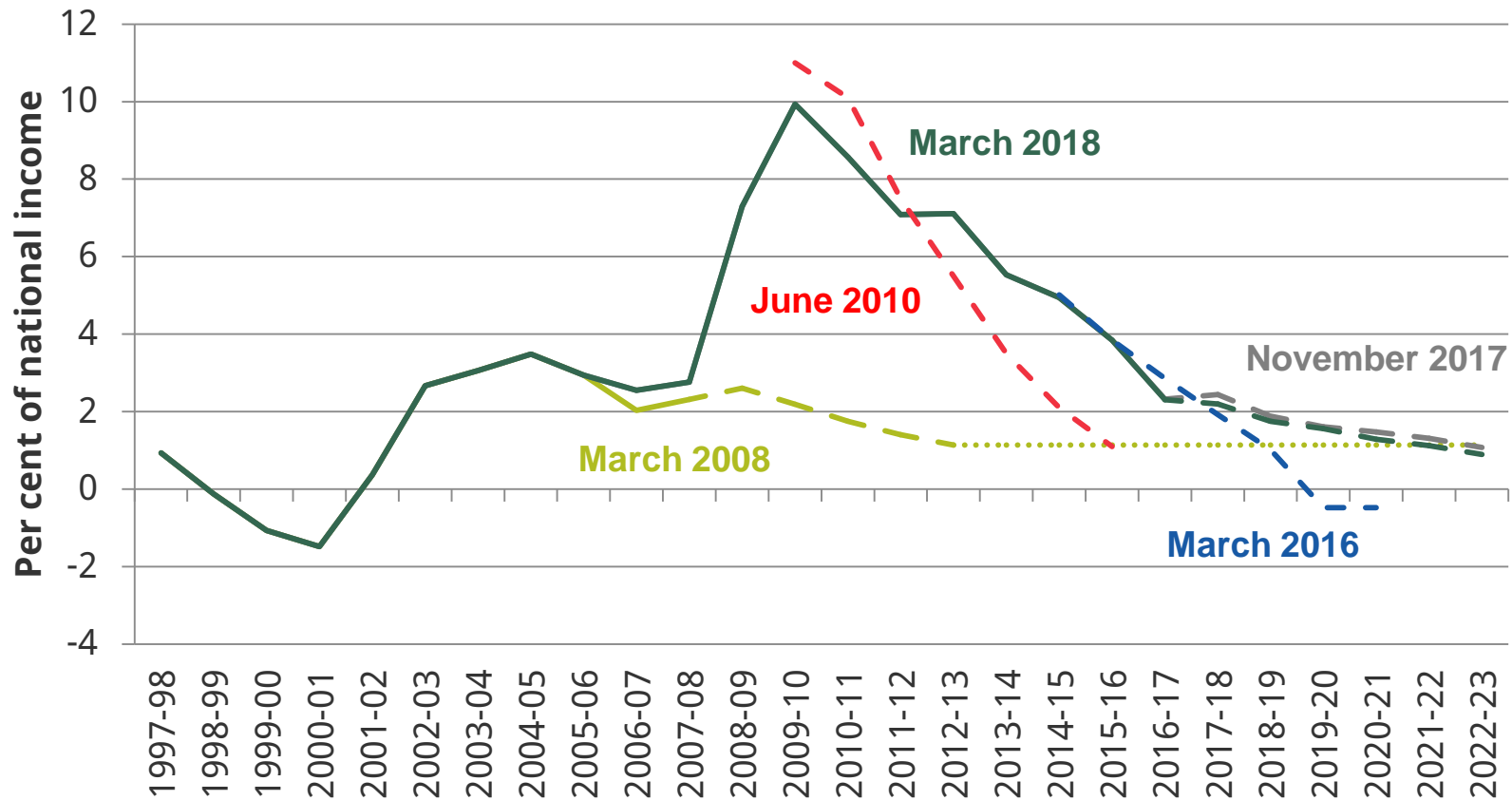
Incomes and living standards have suffered as a result

- 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

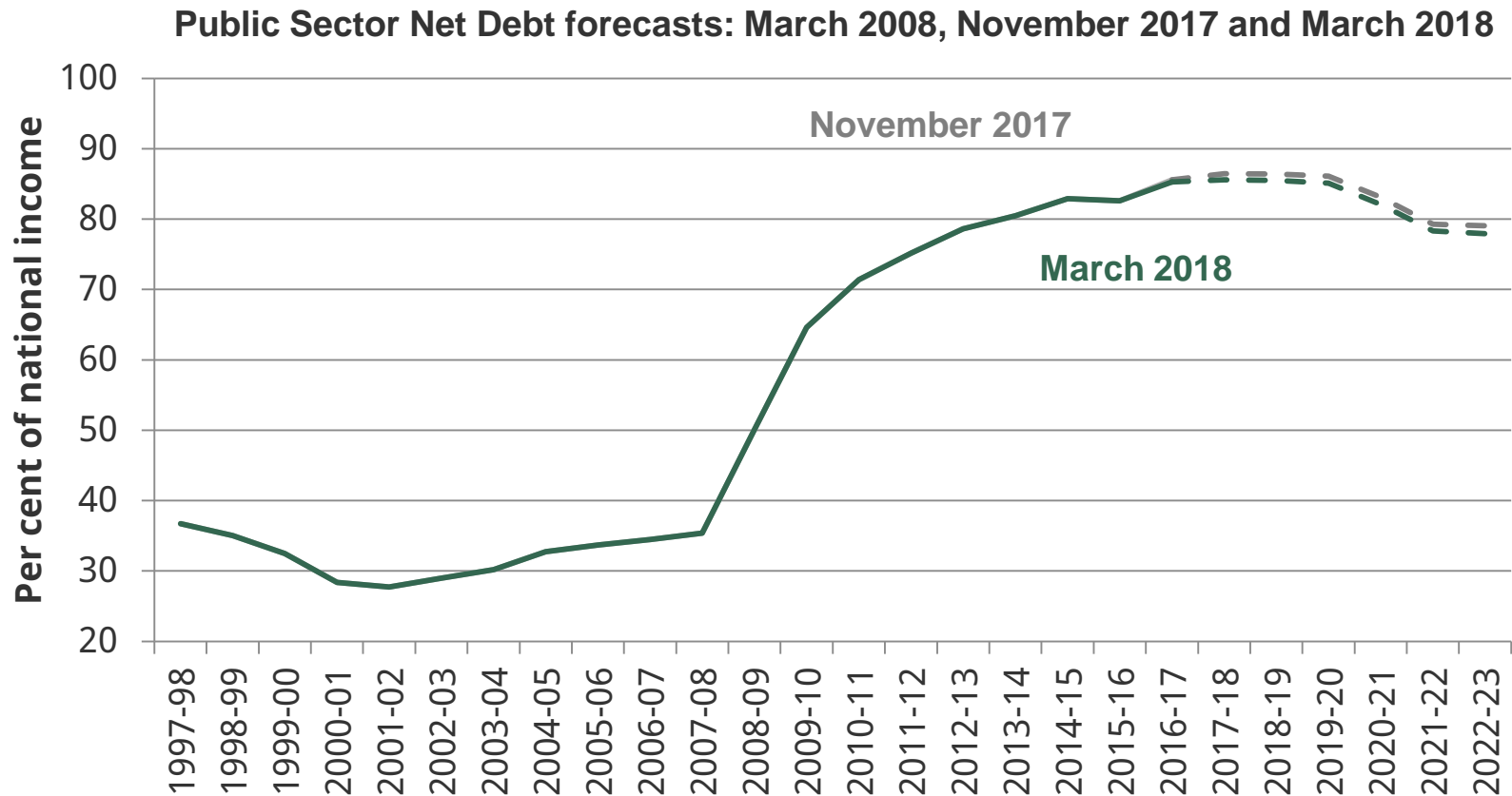
Public Sector Net Borrowing forecasts: March 2008, November 2017 and March 2018



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

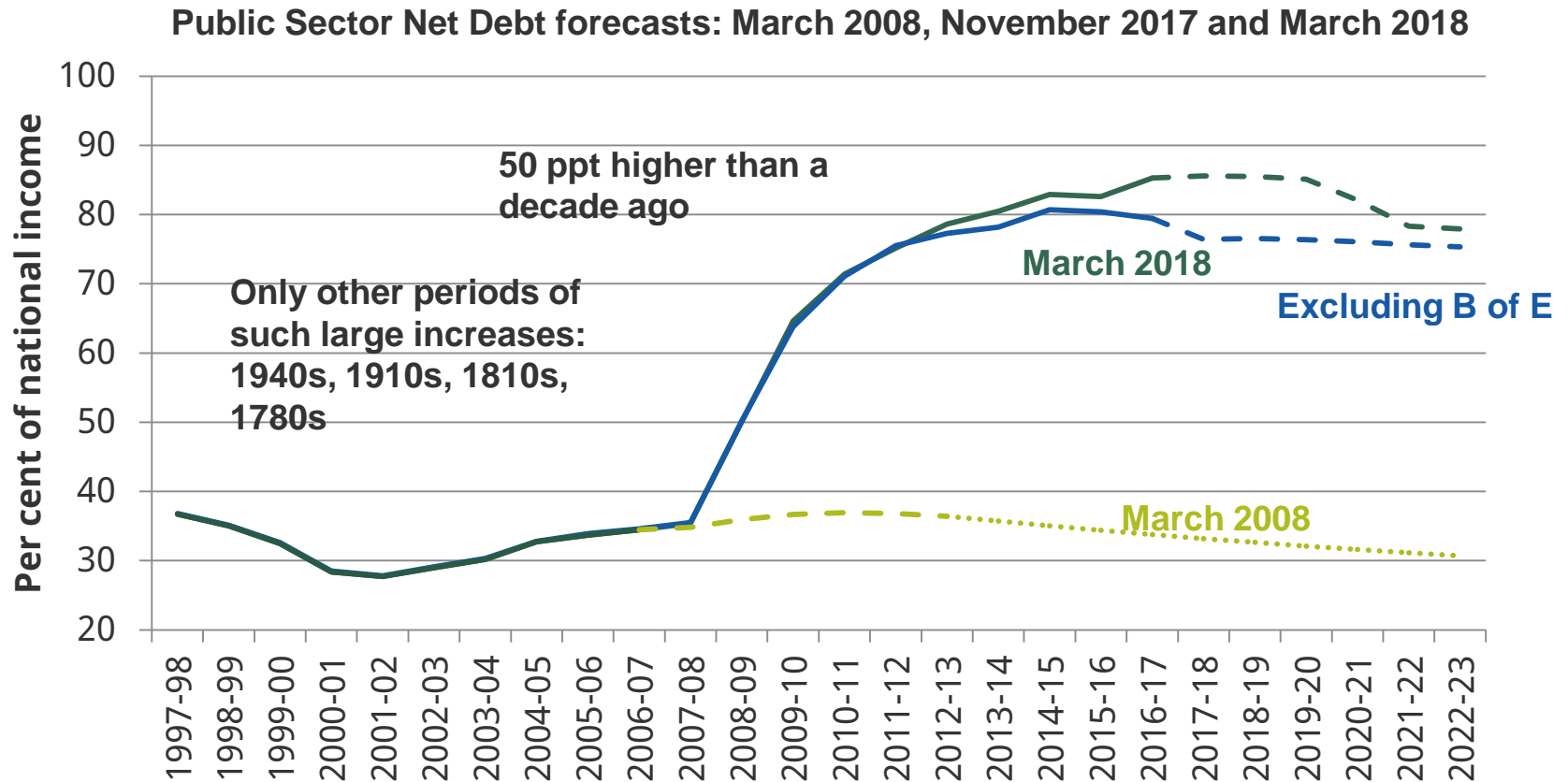
Which has led to higher public sector debt



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.

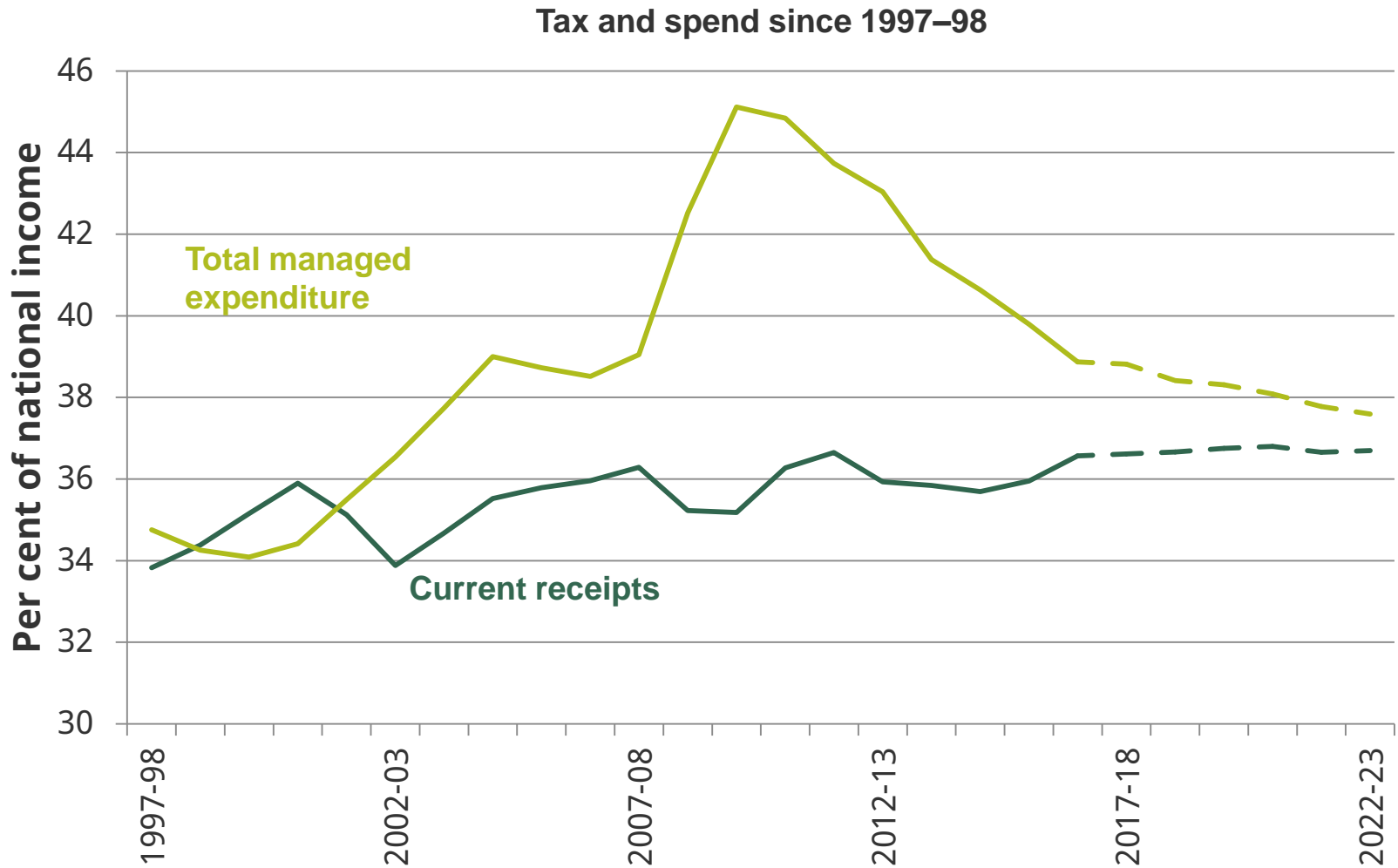
Which has led to higher public sector debt



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



Policy relative to the pre-crisis baseline: mostly about reining in spending



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.

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

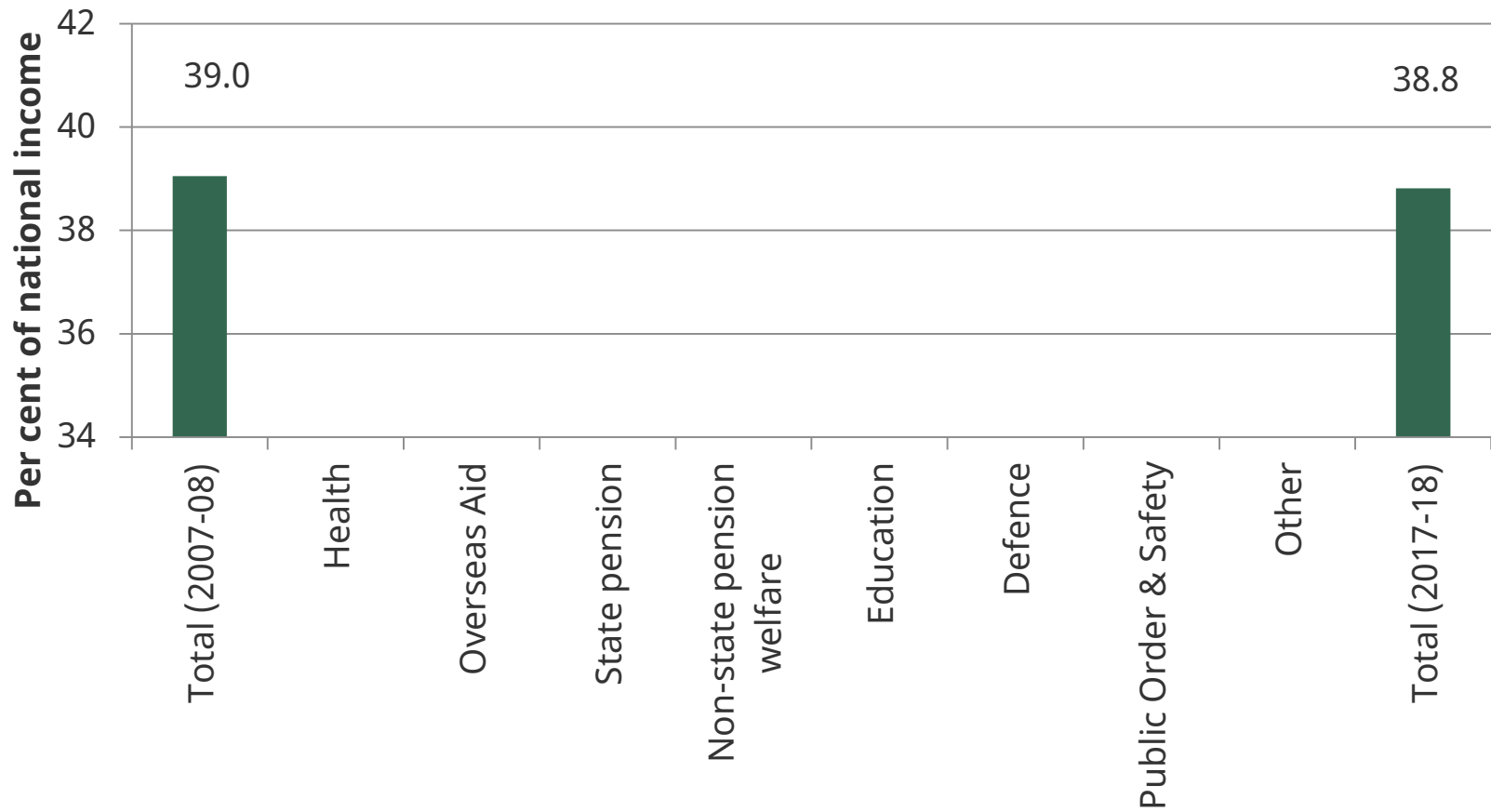
- Large cuts to generosity of tax credits and other working-age benefits
- Pensioners mostly protected – pension triple lock a large giveaway
- More welfare cuts in the pipeline

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

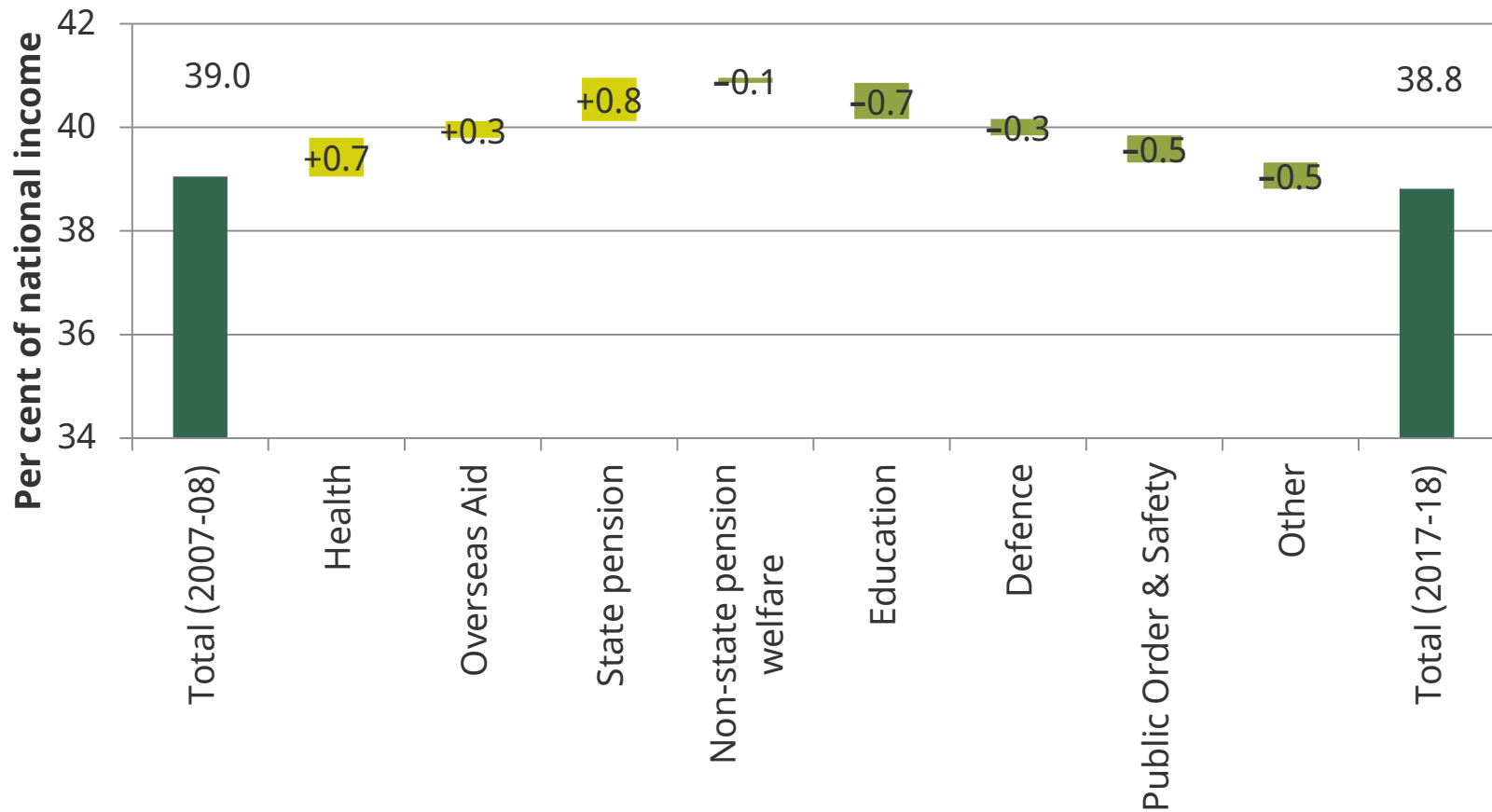
Changes in composition of public spending, 2007-08 to 2017-18



Source: *Public finances databank*

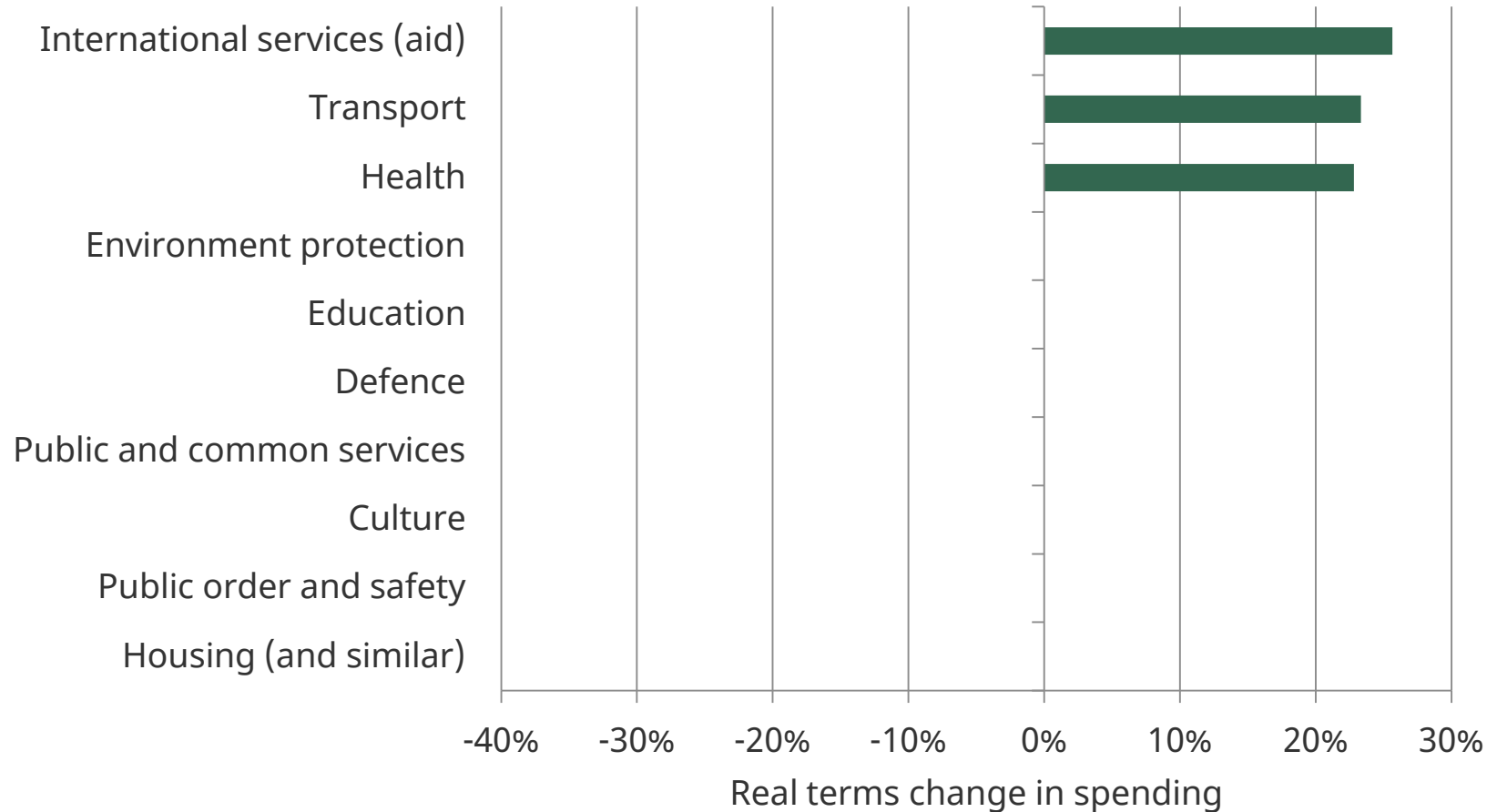
Spending more on health, overseas aid and pensions, but a smaller share elsewhere

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



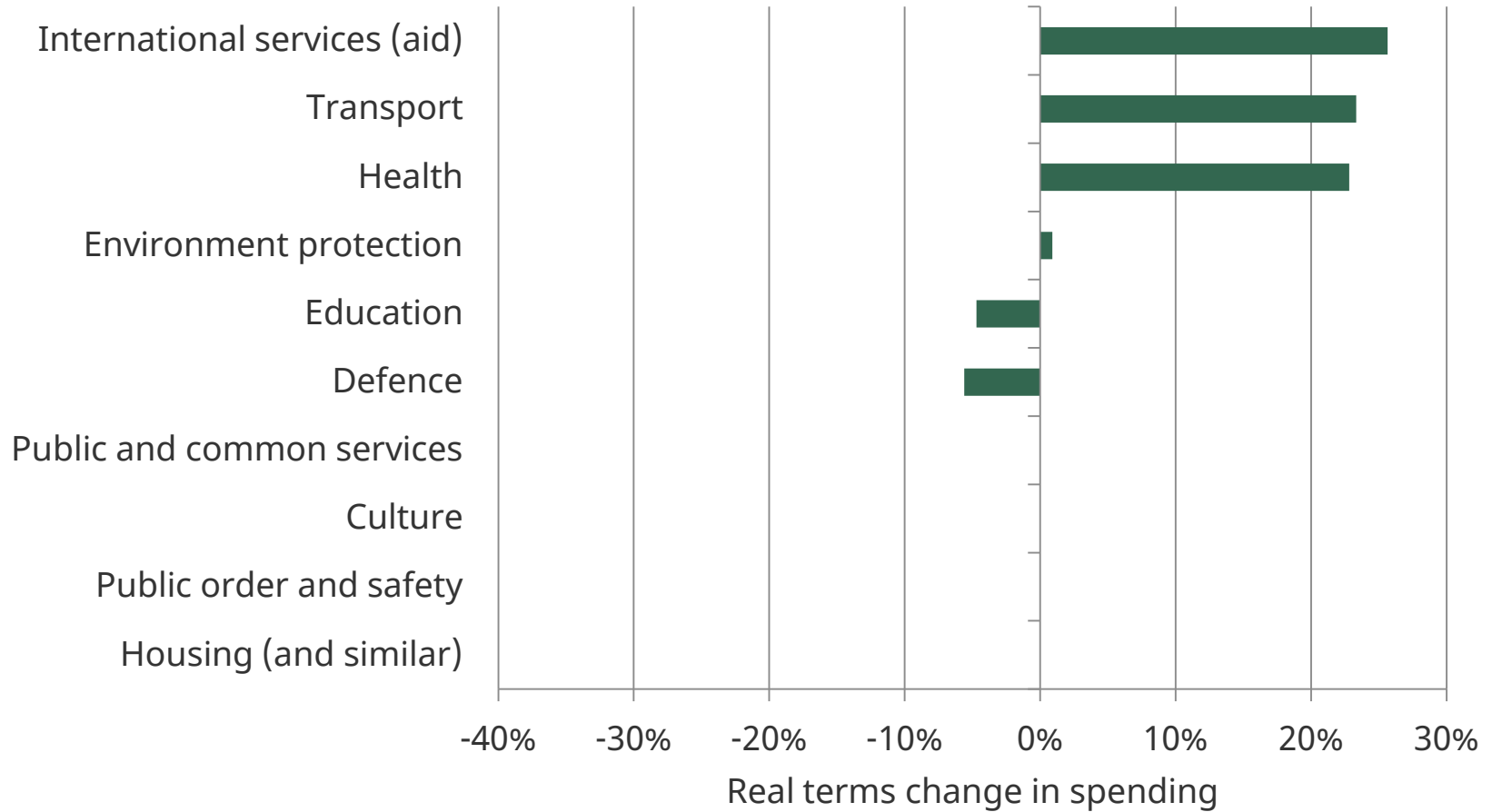
Source: *Public finances databank and PESA*

Real terms change in spending by function, 2007/08 to 2016/17



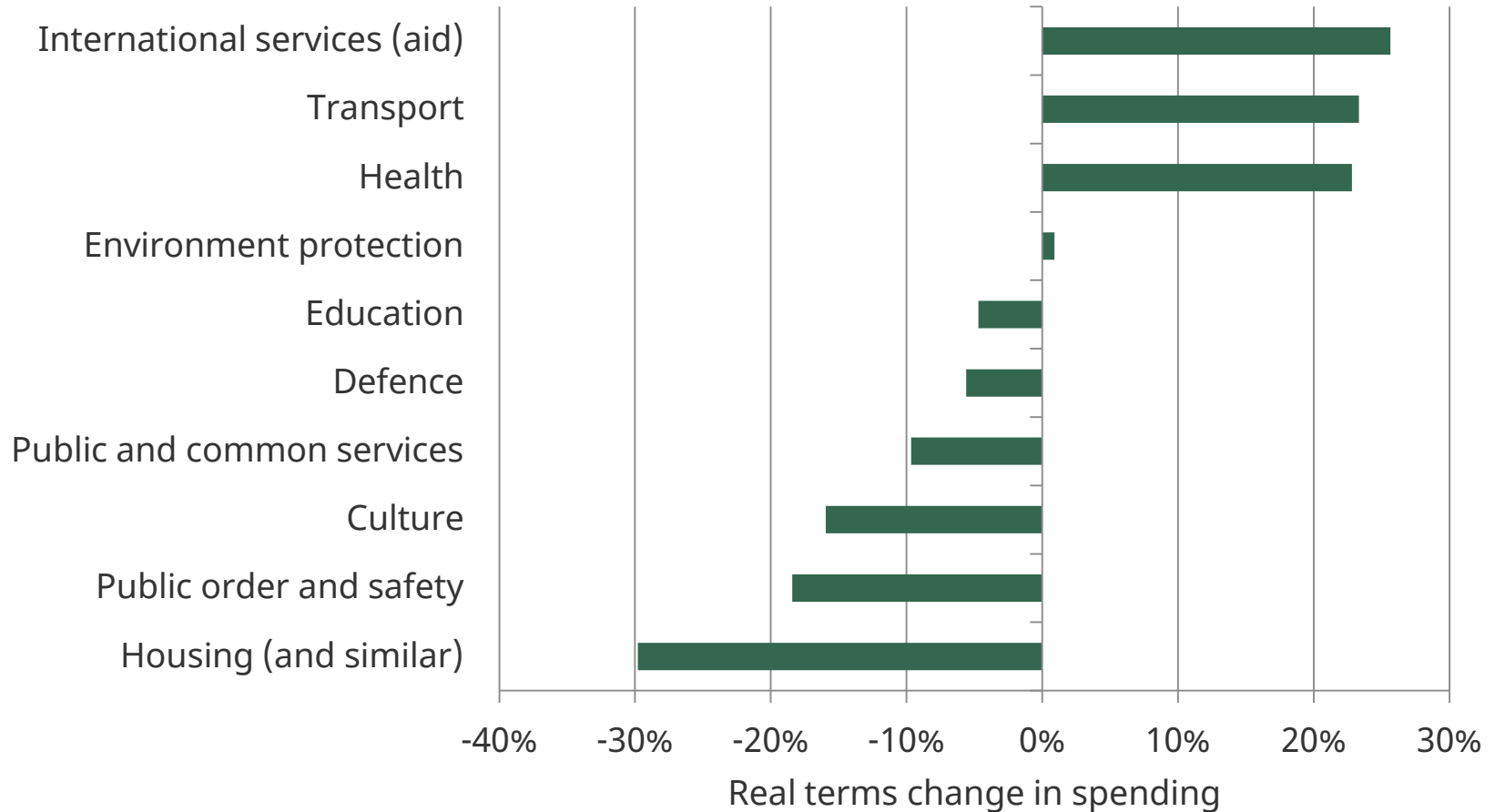
Source: HMT Public Expenditure Statistical Analyses 2017

Real terms change in spending by function, 2007/08 to 2016/17



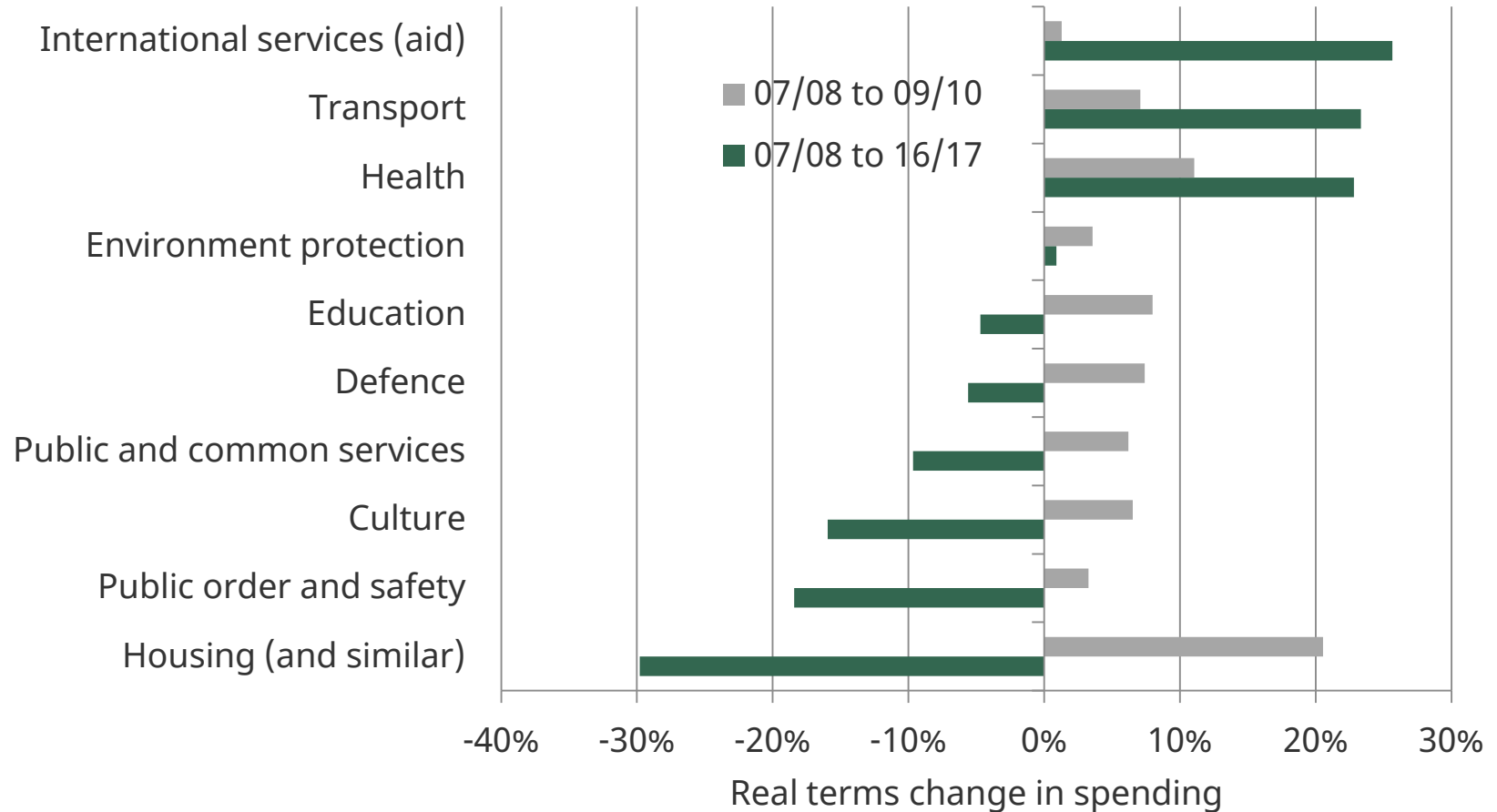
Source: HMT Public Expenditure Statistical Analyses 2017

Real terms change in spending by function, 2007/08 to 2016/17



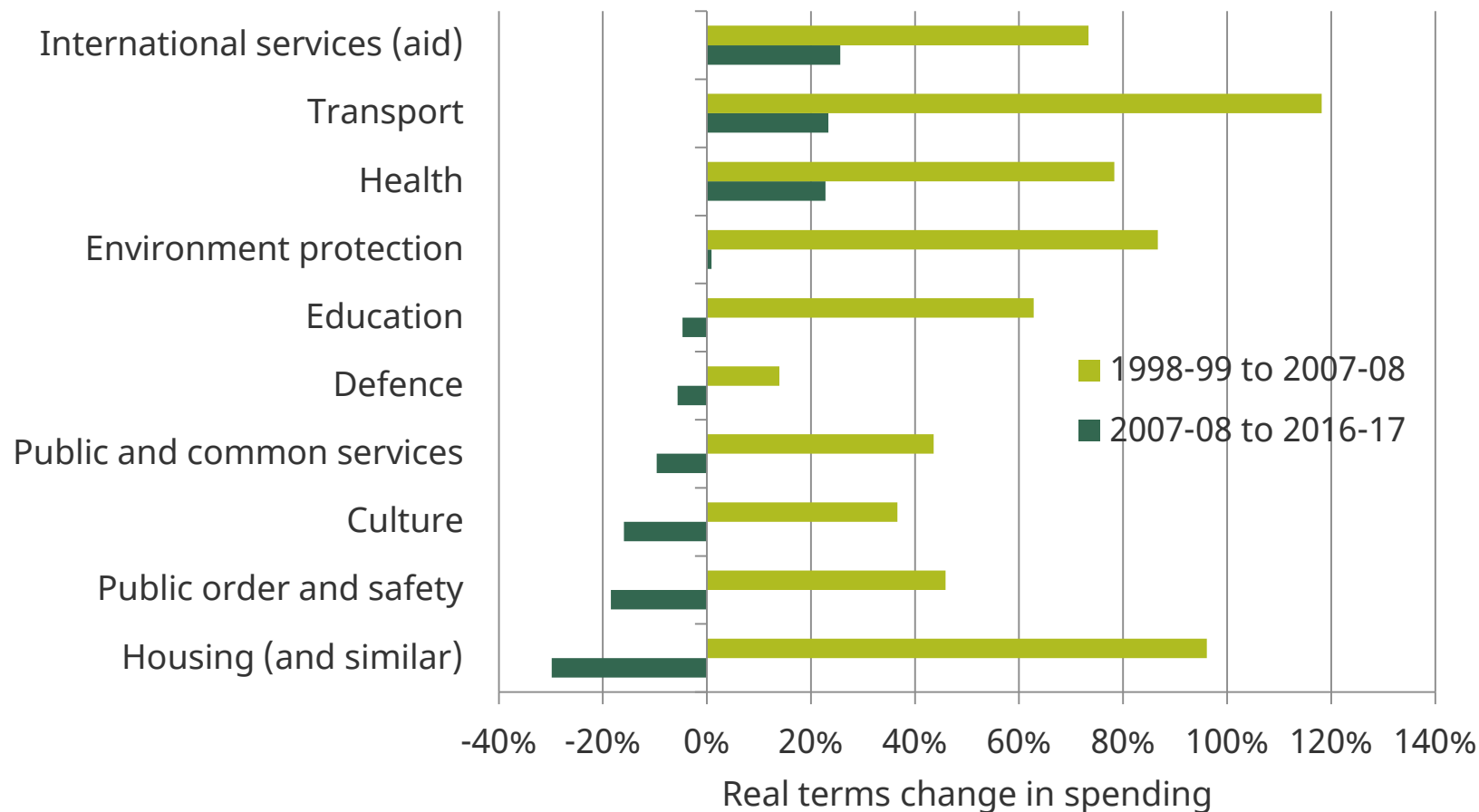
Source: HMT Public Expenditure Statistical Analyses 2017

Real terms change in spending by function, 2007/08 to 2016/17



Source: HMT Public Expenditure Statistical Analyses 2017

Real terms change in spending by function, 1997/98 to 2016/17



Source: HMT Public Expenditure Statistical Analyses 2017

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