

Institute for
Fiscal Studies



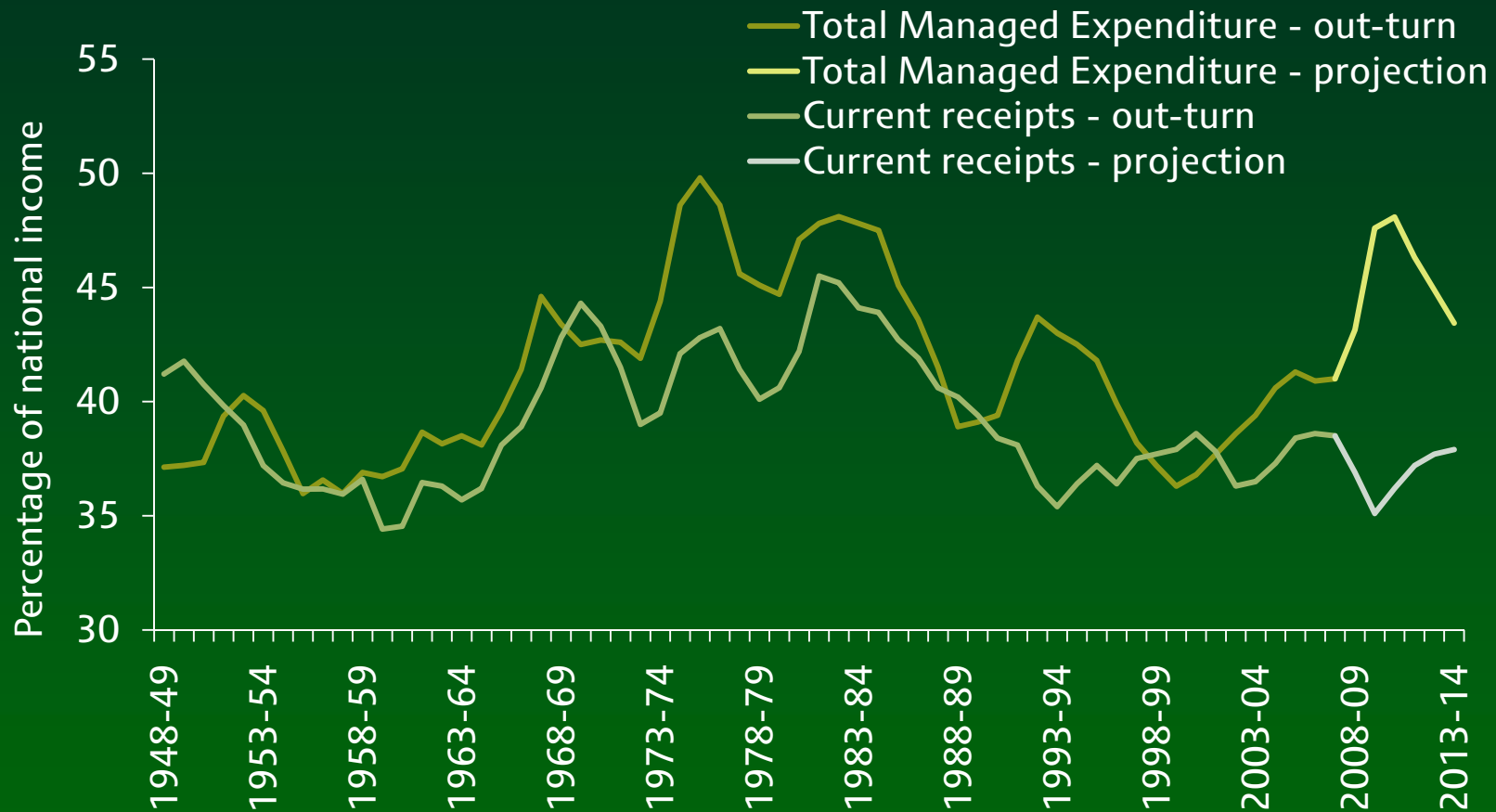
Public finances: two parliaments of pain

Carl Emmerson

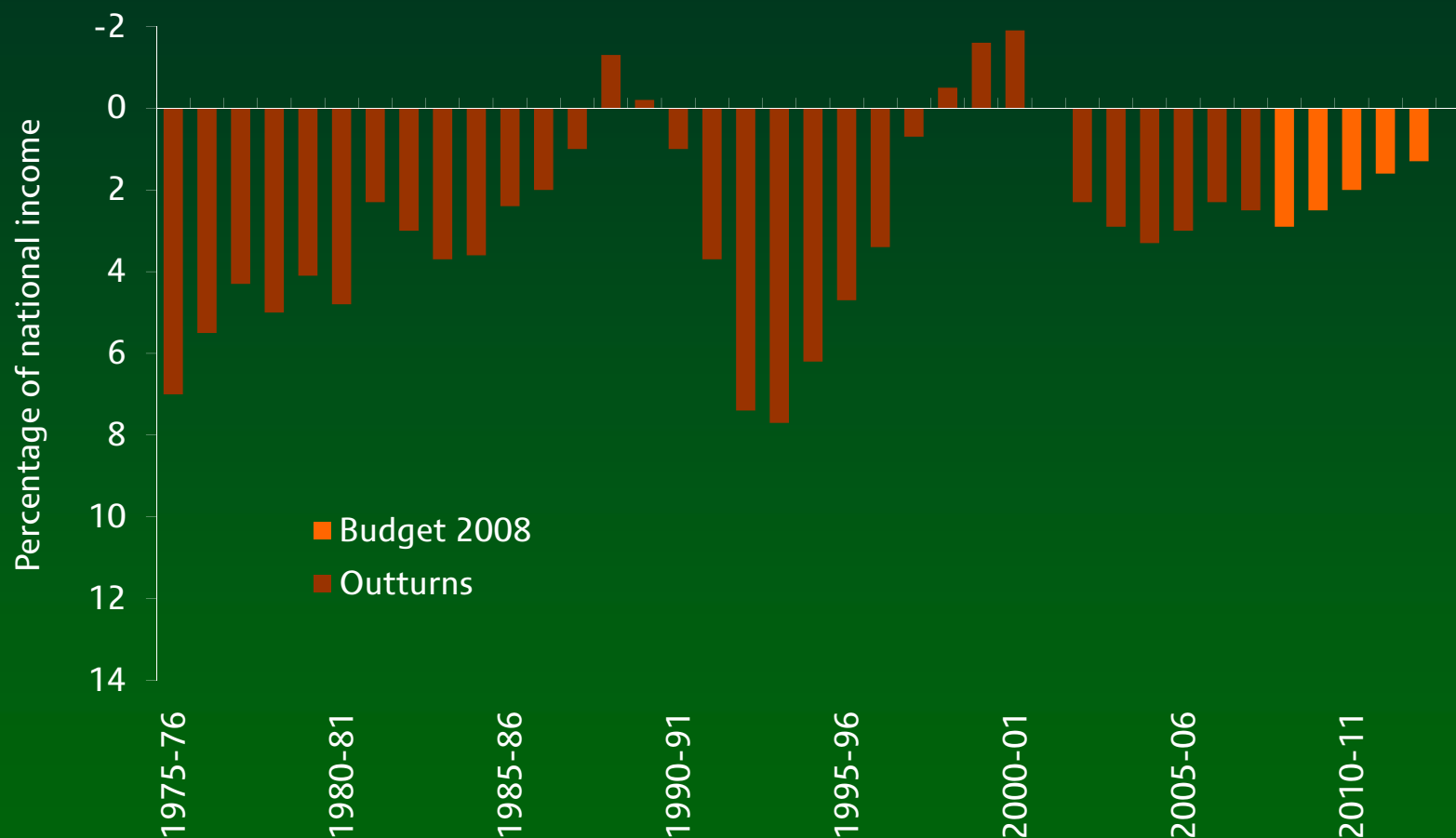
Summary

- Sharp increase in public spending and fall in tax burden leading to biggest level of borrowing since World War II
 - debt to remain high for a generation
 - burden of debt likely to remain low
- Budget aims to raise 3.7% of national income on top of the 2.6% in the 2008 PBR
 - larger than the gap we forecast earlier this month
- This 6.3% of national income is to be filled by:
 - announced tax rises (10%)
 - announced spending cuts (40%)
 - things yet to be announced but to come into force in Parliament after next (50%)

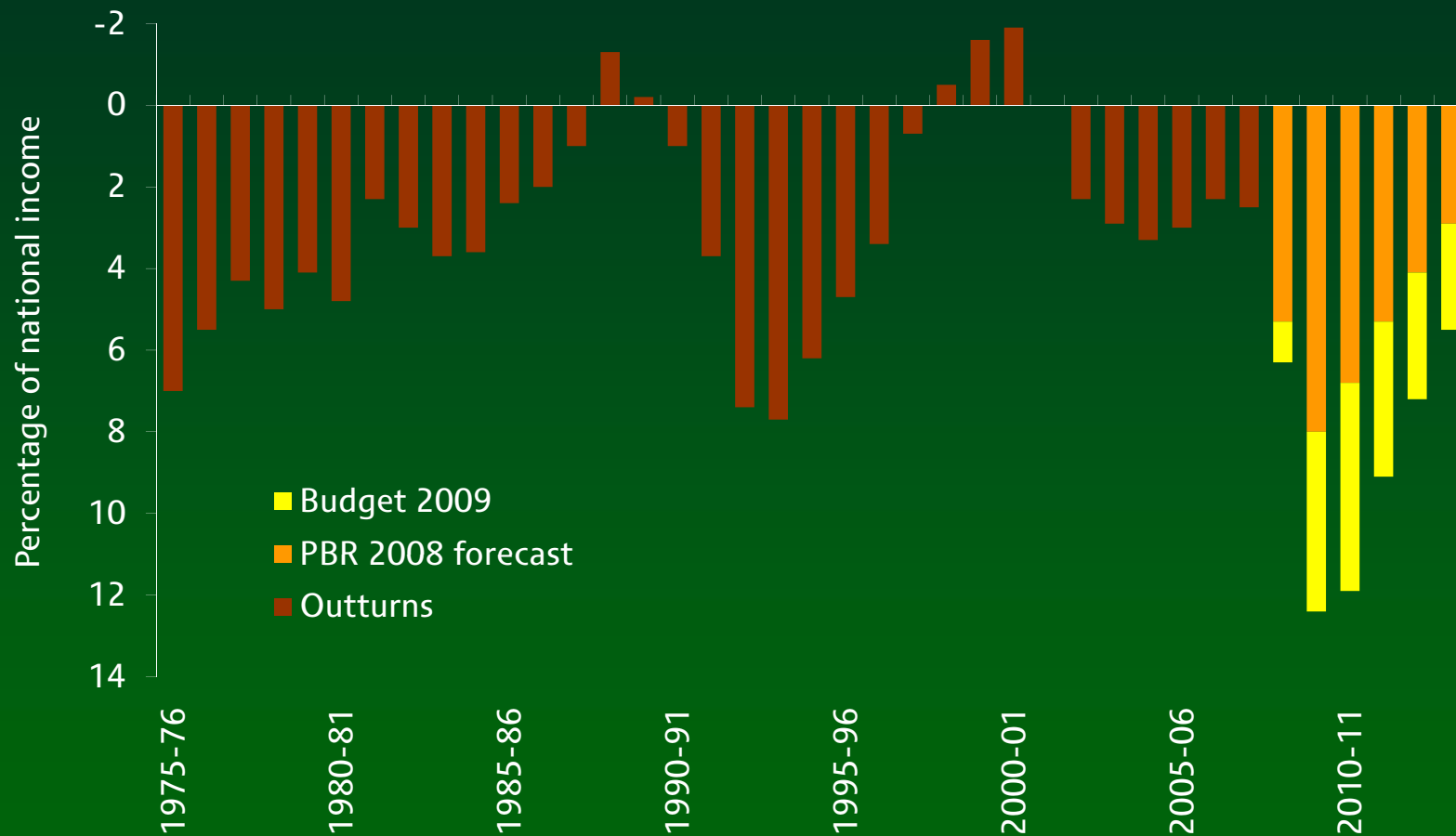
High spending and a low tax burden...



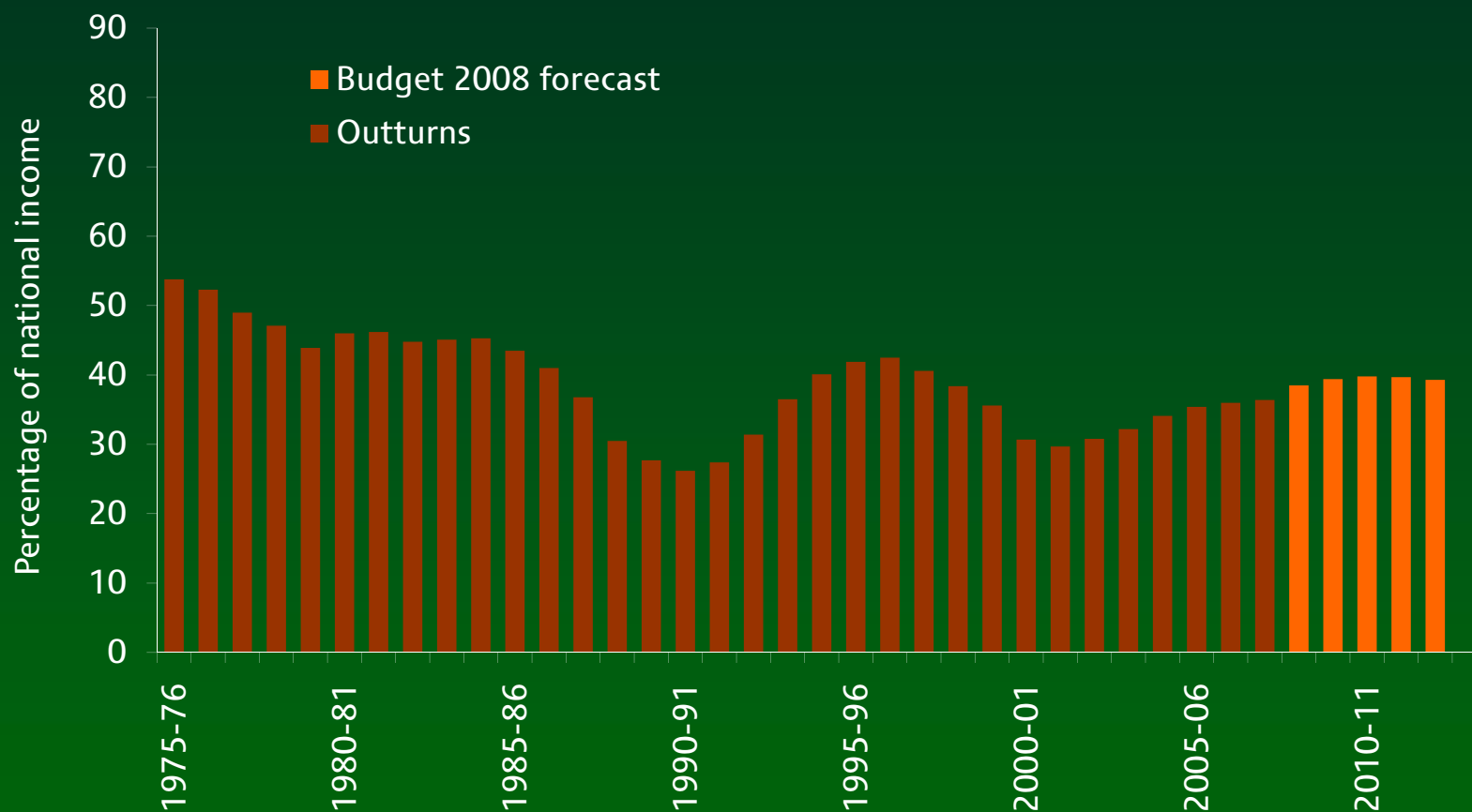
Public sector borrowing to hit post-war peak



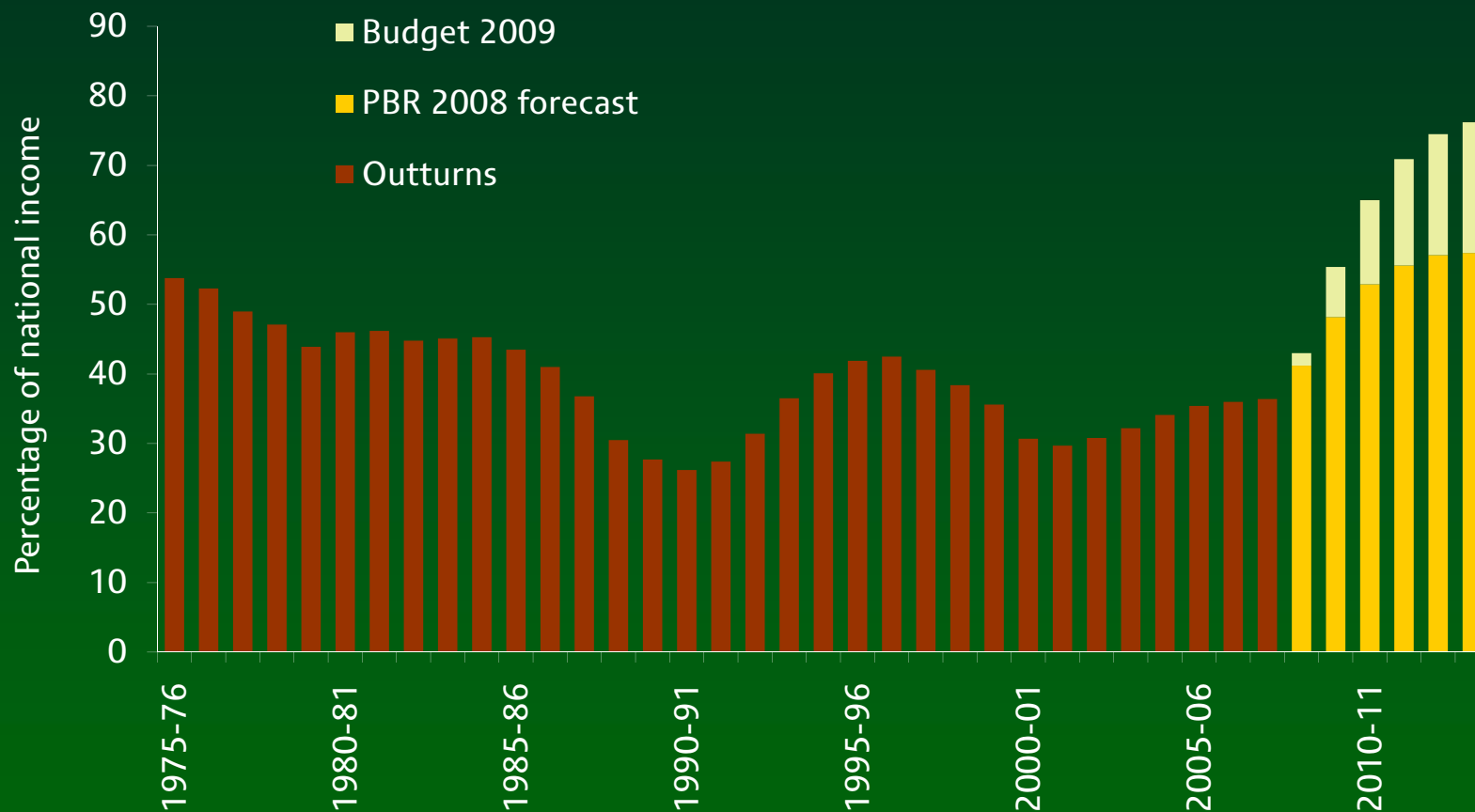
Public sector borrowing to hit post-war peak



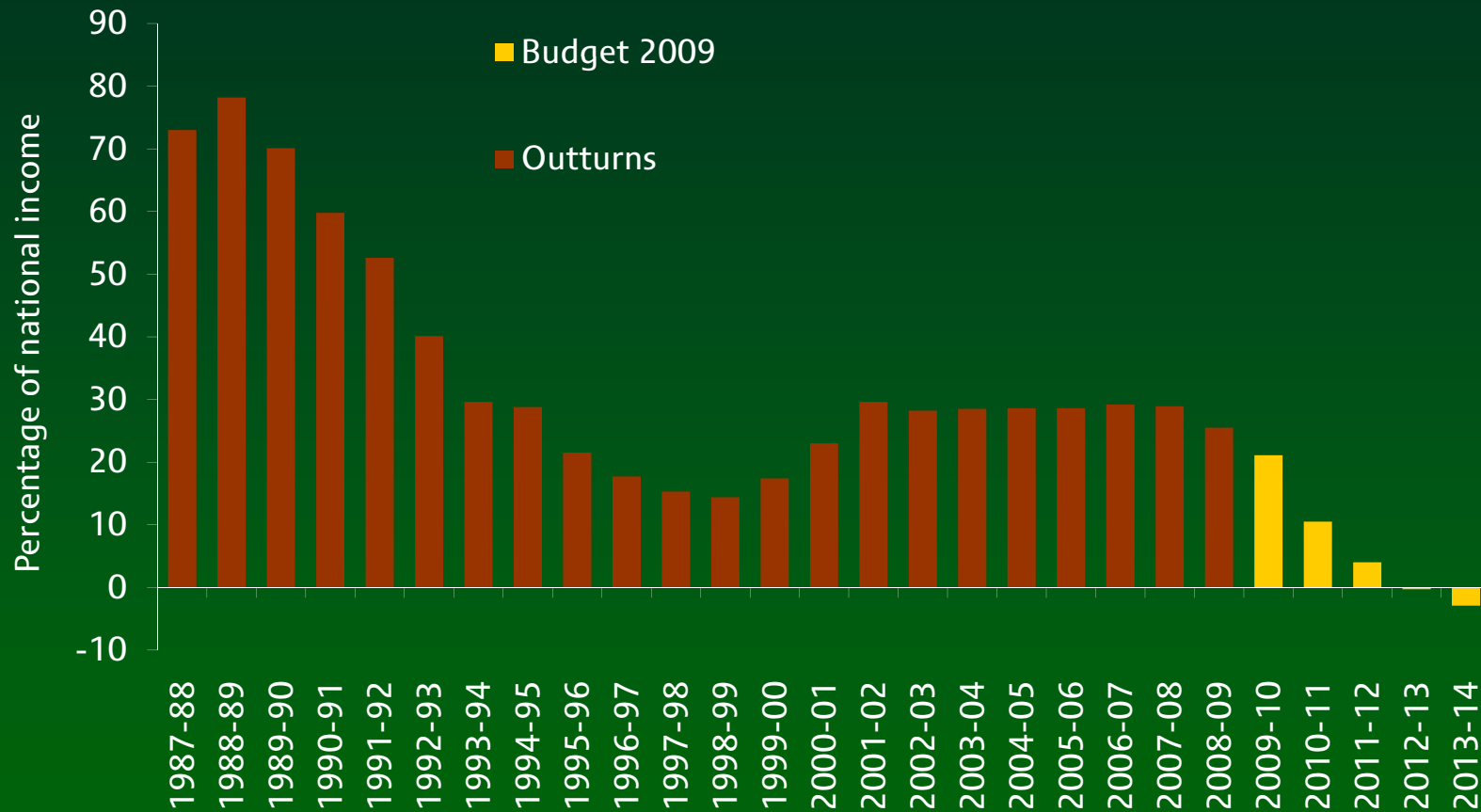
Public sector net debt to exceed mid-90s peak



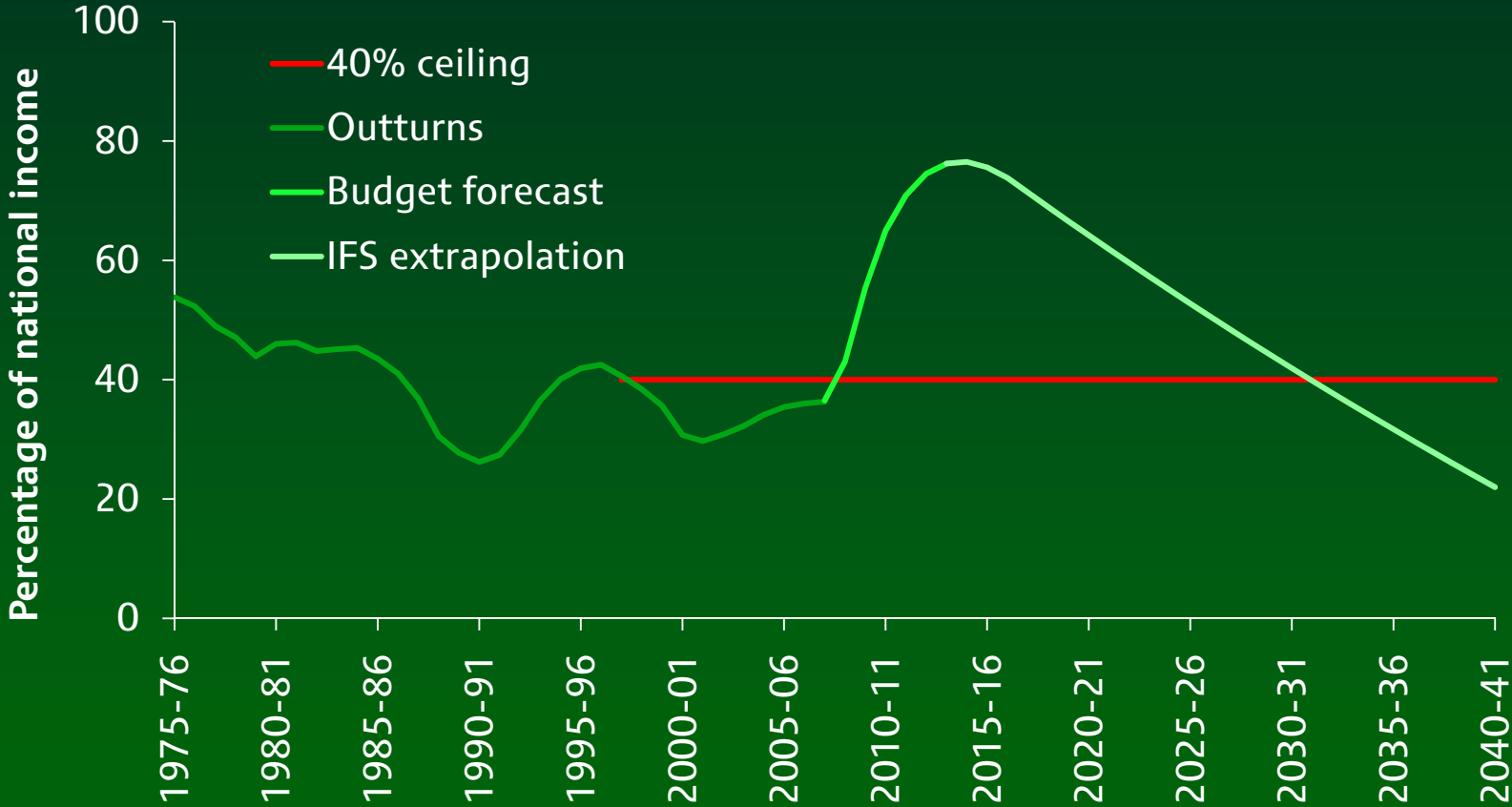
Public sector net debt to exceed mid-90s peak



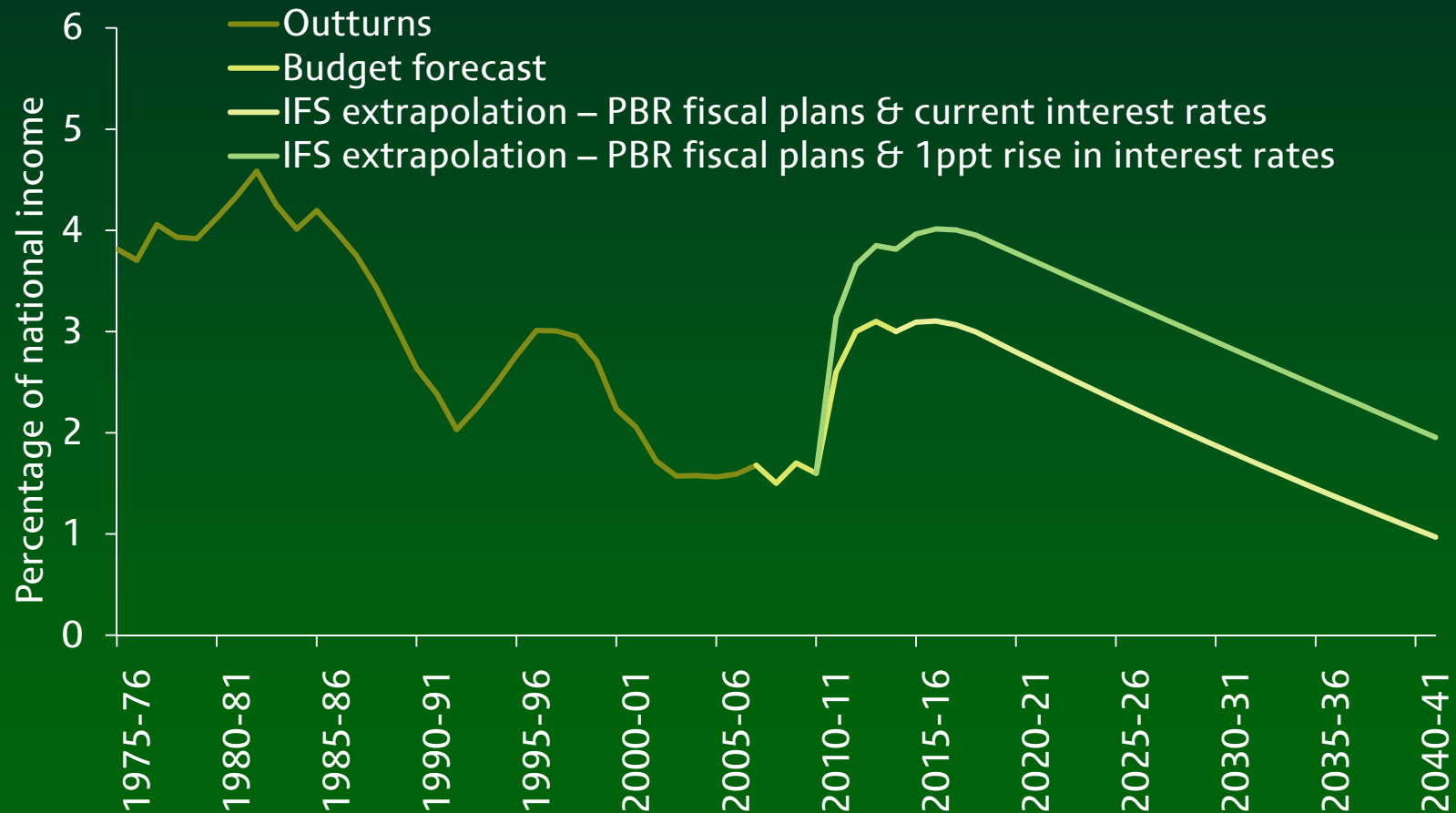
Falling public sector net worth



Debt to remain high for a generation



But burden of high debt low



Chances to borrowing since PBR 2008

Public sector net borrowing, £ billion

	2008–09	2009–10	2010–11	2011–12	2012–13	2013–14
Budget 2008	77.6	118	105	87	70	54
Revisions	+12.3	+49.5	+67	+51.6	+65	+69.6
PBR 2008, no discretionary changes	89.9	168	172	149	135	124
Discretionary changes	0	-47	-67	-8%	-17%	-26%
PBR 2008	77.6	118	105	87	70	70

Sources: HM Treasury; IFS calculations.

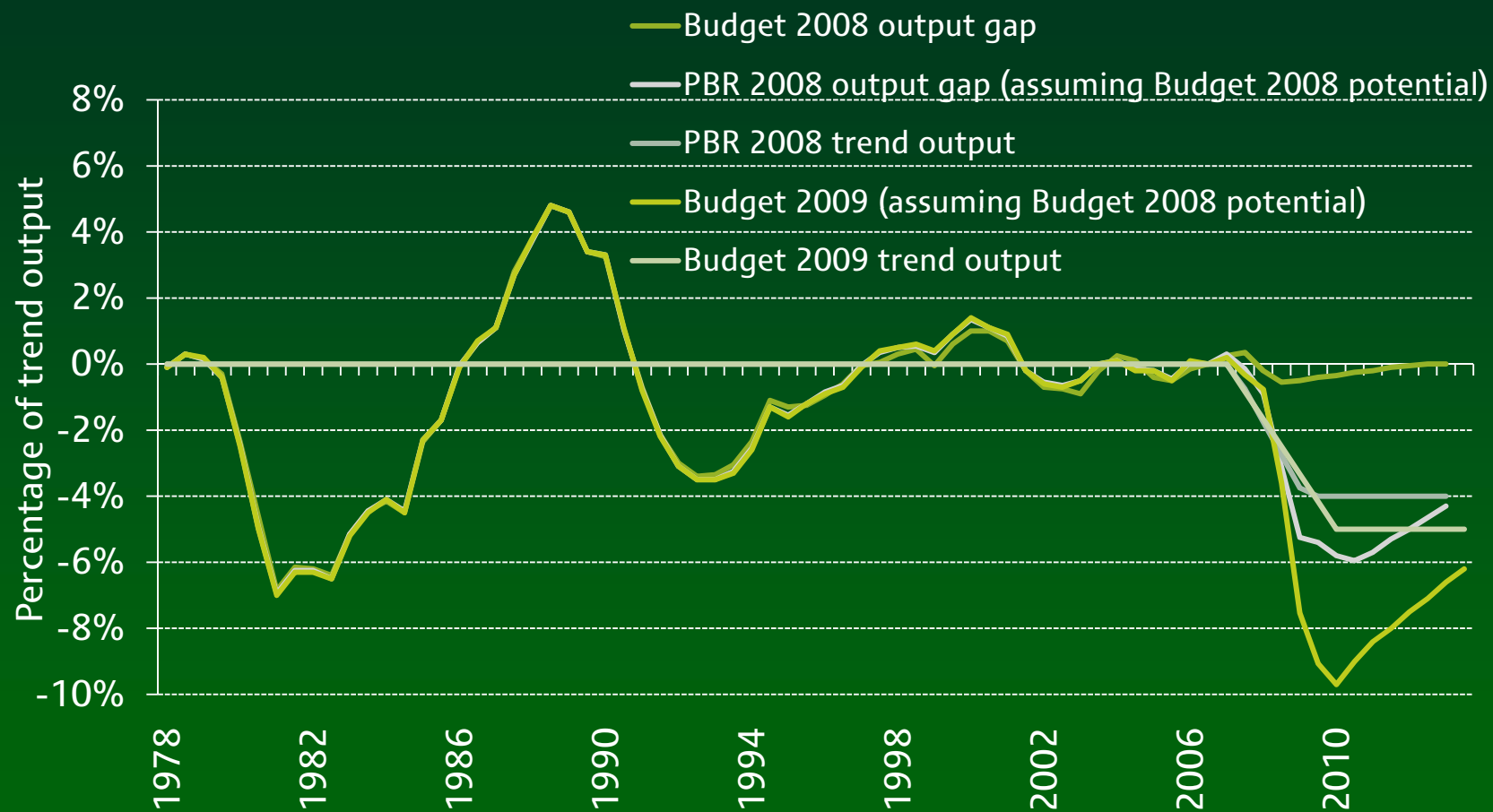
Chances to borrowing since PBR 2008

Public sector net borrowing, £ billion

	2008–09	2009–10	2010–11	2011–12	2012–13	2013–14
Budget 2008	77.6	118	105	87	70	54
Revisions	+12.3	+49.5	+67	+61½	+65	+69½
PBR 2008, no discretionary changes	89.9	168	172	149	135	124
Discretionary changes	0	-47	-67	-84	-17%	-26%
PBR 2008	77.6	118	105	87	70	70

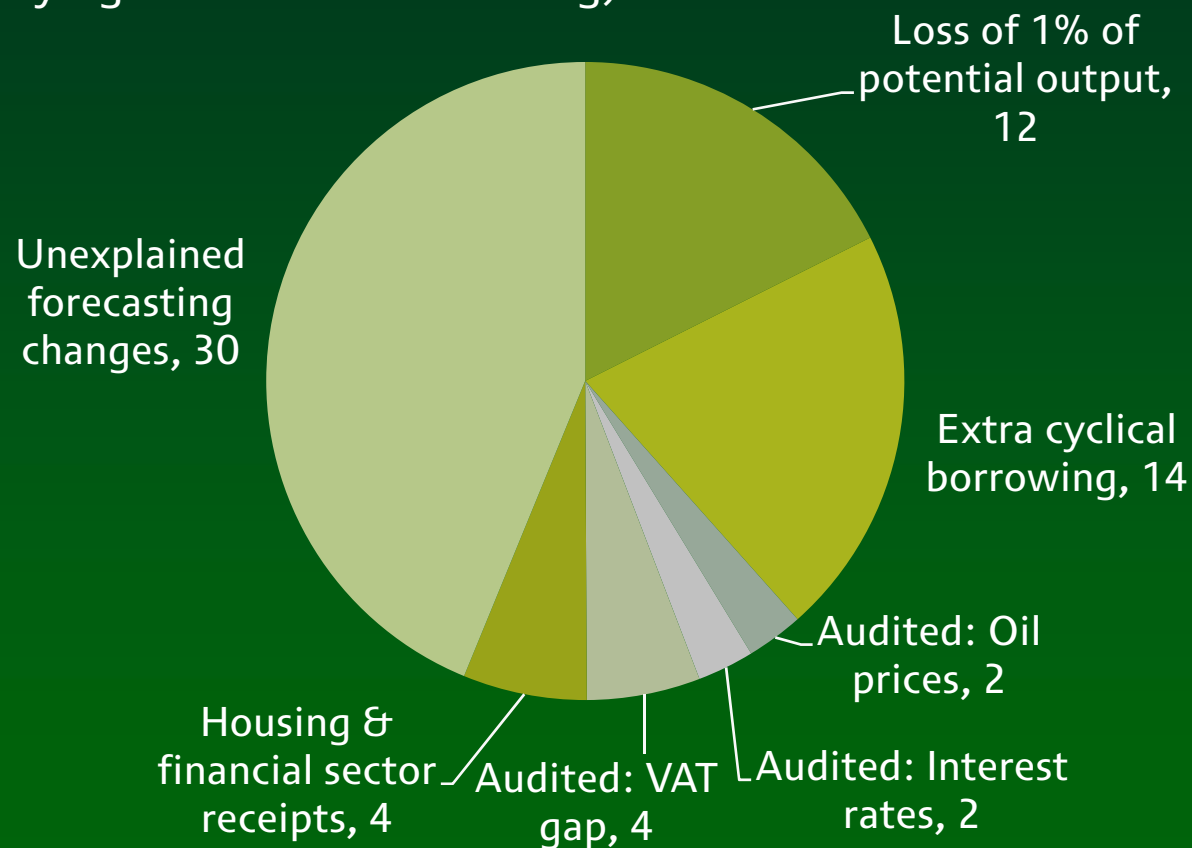
Sources: HM Treasury; IFS calculations.

Bigger permanent hit and a deeper recession



Why the large downwards revision to borrowing?

Underlying revisions to borrowing, 2013–14



Chances to borrowing since PBR 2008

Public sector net borrowing, £ billion

	2008–09	2009–10	2010–11	2011–12	2012–13	2013–14
Budget 2008	77.6	118	105	87	70	54
Revisions	+12.3	+49.5	+67	+61½	+65	+69½
PBR 2008, no discretionary changes	89.9	168	172	149	135	124
Discretionary changes	0	+7	+½	–8½	–17½	–26½
PBR 2008	77.6	118	105	87	70	70

Sources: HM Treasury; IFS calculations.

Measures: giveaway then takeaway

	£ billion				
	2009–10	2010–11	2011–12	2012–13	2013–14
Tax giveaway	-2.6	-0.5	-0.4	-0.4	-0.4
Tax takeaway	+1.0	+3.4	+5.6	+7.6	+8.1
Spending giveaway	-3.6	-3.1	0	0	0
Spending takeaway	+0	+0.2	+3.3	+10.2	+18.8
Net tax increase	-1.6	+2.8	+5.2	+7.3	+7.7
Net spending cut	-3.6	-2.9	+3.3	+10.2	+18.8
Net takeaway	-7.6	-0.6	+8.5	+17.5	+26.5

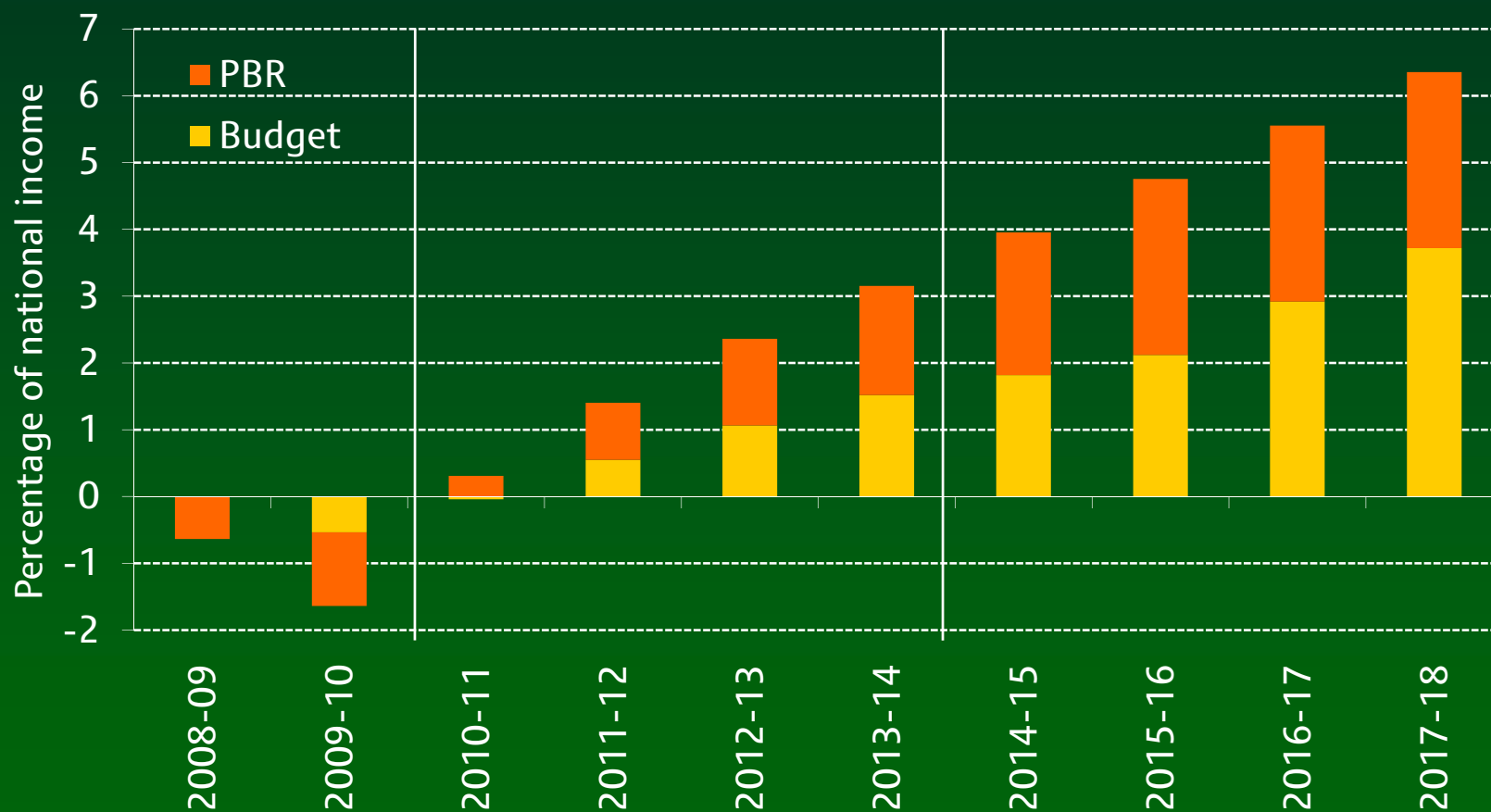
Sources: HM Treasury; IFS calculations.

Measures: giveaway then takeaway

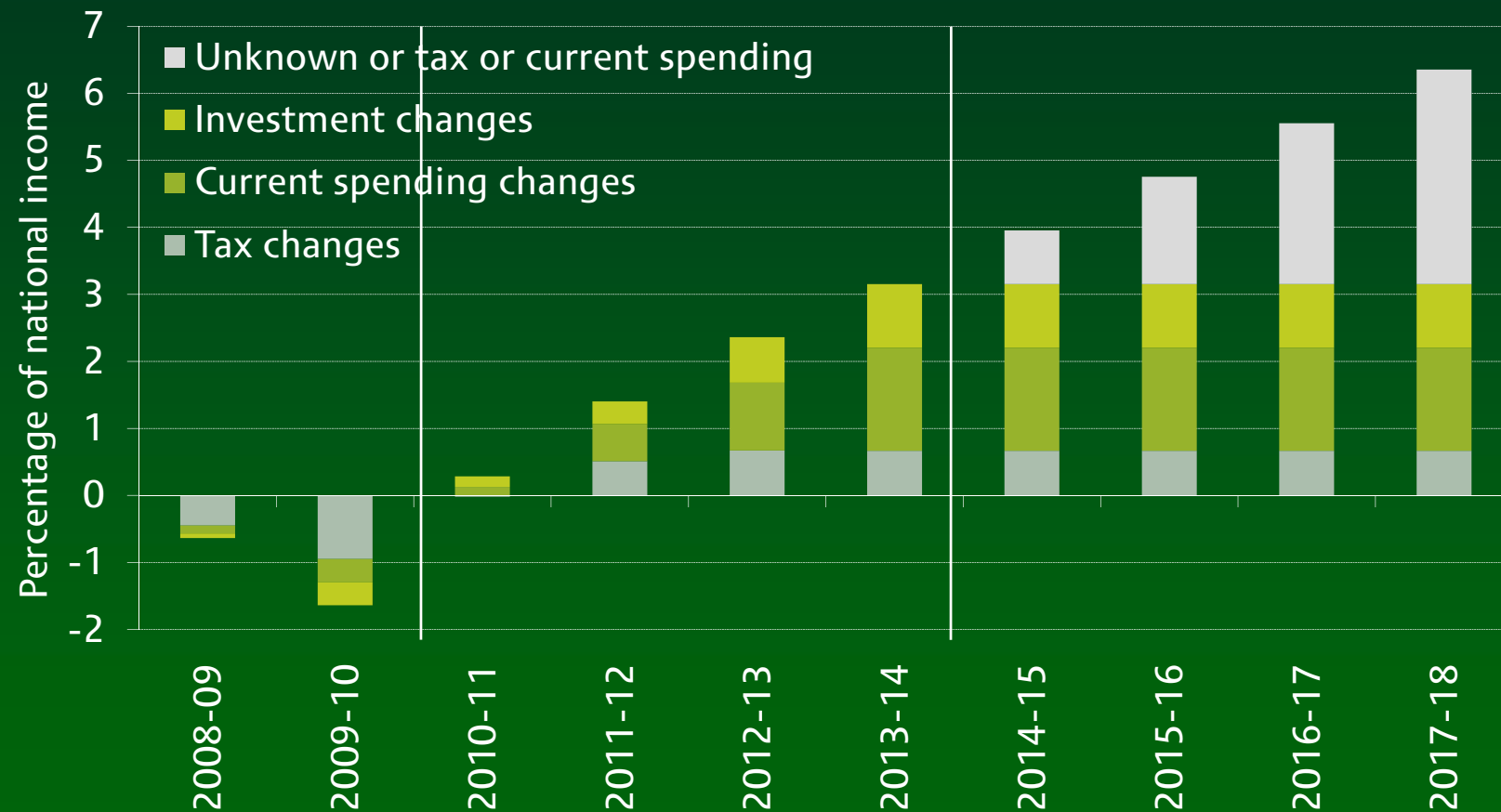
	£ billion				
	2009–10	2010–11	2011–12	2012–13	2013–14
Tax giveaway	-2.6	-0.5	-0.4	-0.4	-0.4
Tax takeaway	+1.0	+3.4	+5.6	+7.6	+8.1
Spending giveaway	-6.0	-3.6	0	0	0
Spending takeaway	+0	+0.2	+3.3	+10.2	+18.8
Net tax increase	-1.6	+2.8	+5.2	+7.3	+7.7
Net spending cut	-6.0	-3.4	+3.3	+10.2	+18.8
Net takeaway	-7.6	-0.6	+8.5	+17.5	+26.5

Note: Actual numbers may differ due to rounding.
Sources: HM Treasury; IFS calculations.

Fiscal tightening: two parliaments of pain



Fiscal tightening, by type of measure

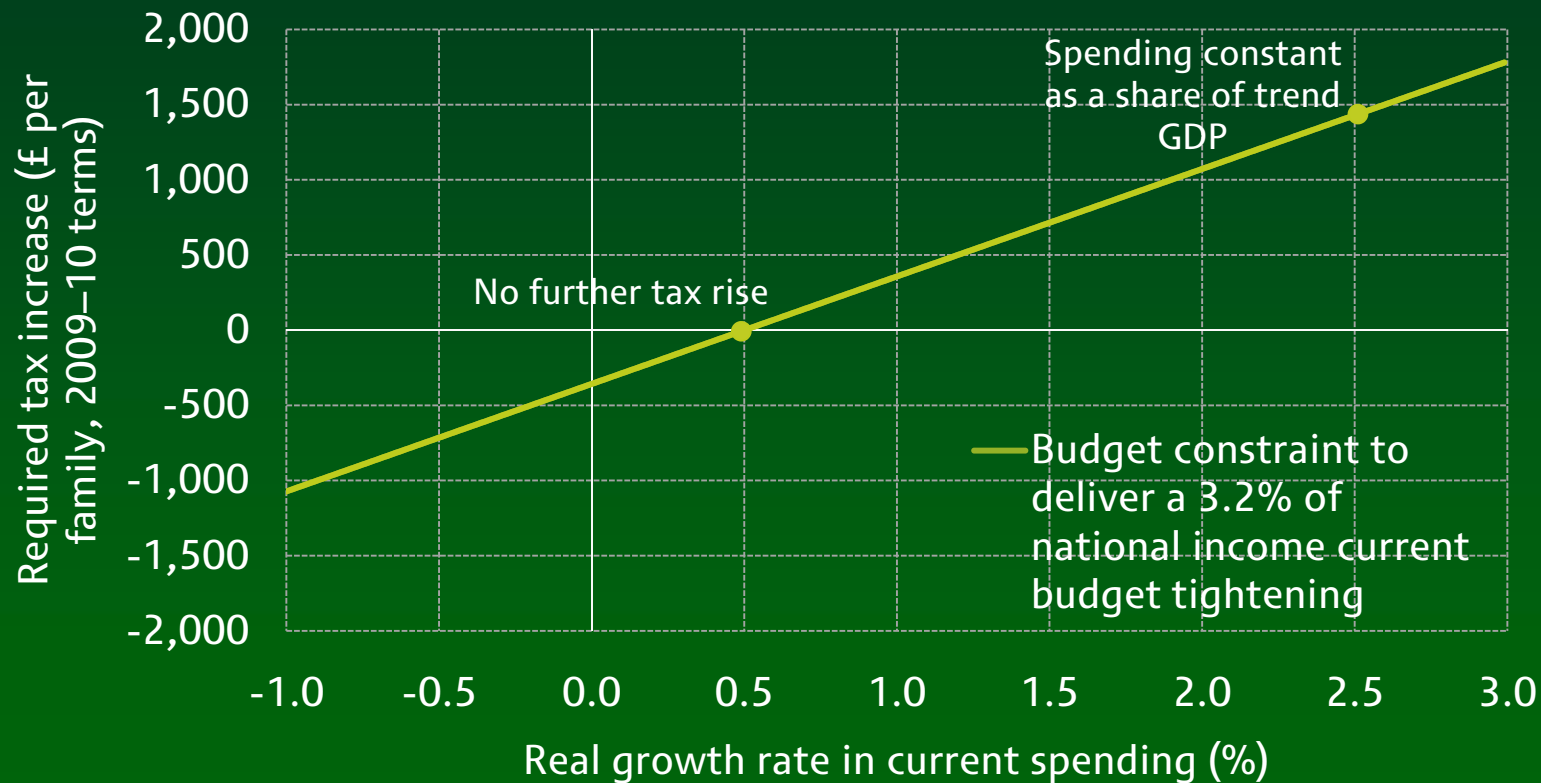


Fiscal tightening: PBR 2008 & Budget 2009

- Total tightening of 6.4% of national income required
 - £2,840 per family in the UK
- Tax increase of 0.7% of national income
 - £300 per family
- Current spending cut of 1.5% of national income
 - £690 per family
- Investment spending cut of 1.0% of national income
 - £425 per family
- Yet to be announced increase in tax or cut to current spending of 3.2% of national income, to come into force in parliament after next
 - £1,430 per family

Tough choices for the Parliament after next

Tax and current spending trade off to deliver a 3.2% of national income fiscal tightening between April 2014 to March 2018



Summary

- Sharp increase in public spending and fall in tax burden leading to biggest level of borrowing since World War II
 - debt to remain high for a generation
 - burden of debt likely to remain low
- Budget aims to raise 3.7% of national income on top of the 2.6% in the 2008 PBR
 - larger than the gap we forecast earlier this month
- This 6.3% of national income is to be filled by:
 - announced tax rises (10%)
 - announced spending cuts (40%)
 - things yet to be announced but to come into force in Parliament after next (50%)