

Good afternoon everyone.

My name is Robert Chote, Director of the IFS. Welcome to our post-PBR briefing.

I am going to make a few opening remarks and then we have three presentations for you:

- Carl Emmerson will talk about public spending;
- Gemma Tetlow will talk about the public finances
- And Stuart Adam will talk about the PBR policy measures.

My remarks will be available in hard copy after the briefing and the slides from the presentations will be on the website later this afternoon.

As today's press coverage makes clear, the defining feature of Alistair Darling's first big set piece statement as Chancellor has been his need for extra borrowing: borrowing money and borrowing policies.

Mr Darling's most immediate problem is that the credit crunch and a weaker outlook for wages and salaries are expected to lose him £4 billion in income tax revenue and £3 billion in corporation tax revenue next year. With other forecasting changes, this has punched a £6½ billion hole in the current budget balance next year, relative to the forecasts in the March Budget. This has once again delayed the long-awaited moment at which the Treasury expects the current budget balance to be back in the black.

The Chancellor then expects this hole largely to disappear of its own accord over the next couple of years, as the financial sector recovers and as economic growth picks up. But the size of the revenue loss and the timing and speed of any recovery are clearly uncertain.

Remind yourself why it is that the Treasury is currently having to squeeze public spending and push up the tax burden over the next few years: it is because a blow to revenues from problems in the financial sector early in Labour's second term turned out year-after-year to be much deeper and longer-lasting than the Treasury thought. The Government must be hoping devoutly that history is not about to repeat itself.

Of the £6½ billion hole in the current budget next year, the Treasury expects only £1½ billion to remain by 2010/11. By then this will be almost exactly offset by the net tax increases and cuts in state pension

spending that Mr Darling announced yesterday. The forecast for the current budget balance in 2010/11 is thus unchanged from the Budget.

But you may recall that Mr Darling made much towards the end of his speech yesterday of the fact that he also had an extra £2 billion available to spend on investment in 2010/11. But where does this extra £2 billion come from? Mr Darling has not raised the money from taxes, he has not found it by cutting spending elsewhere, and he hasn't received a windfall in the form of unexpectedly buoyant revenue – quite the opposite. He has simply chosen to borrow more, further narrowing the already small amount of headroom beneath the Treasury's ceiling for public sector debt. For a party which loves to lecture its opponents on the wickedness of unfunded tax cuts, this looks suspiciously like an unfunded spending increase.

Set against total spending of almost £680 billion in 2010/11, £2 billion is small beer and is not going to prompt a financial crisis. But what is the point of setting out supposedly fixed and firm three-year spending plans in the March Budget if just seven months later you are already topping them up for no well-argued reason. Are we really supposed to believe that the Treasury has suddenly discovered some vital pieces of capital investment that needs to be done in 2010/11 (and not in either of the two previous years) that it was unaware of in March? Heaven forbid that shorter term political considerations may have played a role.

The Chancellor also used his speech to trumpet the fact that the Government will meet its famous golden rule – to borrow no more than it needs to invest - with almost £20 billion to spare over the economic cycle that he thinks may have ended in 2006/07. We have argued at these events before that it would be better if the golden rule was forward looking and that judging whether it was being met or not did not rely on being able to define precisely the dates of an economic cycle.

This argument is made all the stronger by the Treasury's new estimates of the output gap in the PBR. These appear to show that we are now in the midst of a two-year mini-cycle ending in 2008-09. If the output gap evolves as the Treasury expects, will it add this period to the end of the last cycle, regard it as a cycle in its own right, or add it to the next cycle? Each option would have different implications for the comfort with which the golden rule is met and the scope for future borrowing. This further undermines the credibility of the golden rule as currently applied and makes the case for reforming it in the Budget more compelling.

As regards the spending review, as Carl will explain, the Chancellor has confirmed that growth in total public spending will roughly halve from the rates enjoyed in Labour's years of plenty. Interestingly, the squeeze on Whitehall departments will be even tighter, because of what the Treasury expects to have to spend on other areas such as tax credits, benefits and debt interest.

Note also that having confirmed that public spending will grow less quickly than the economy over the three years of the Comprehensive Spending Review, the Treasury's forecasts for borrowing rely on this continuing to be the case over what will presumably be Spending Review 2009. This means that having criticised the Conservatives for proposing to cut spending as a share of national income economic cycle by economic cycle, the Treasury's figures show the Government meeting this rule into the foreseeable future.

Turning briefing to the tax measures, there are some welcome reforms, for example the proposals to remove taper relief from capital gains tax. As with the removal of the 10p starting rate of income tax in the March Budget, and the earlier abandonment of the zero rate of corporation tax for small companies, the Government has achieved a welcome simplification of the tax system by removing one of the complications that it was responsible for introducing in the first place.

Now let me hand you over to Carl...