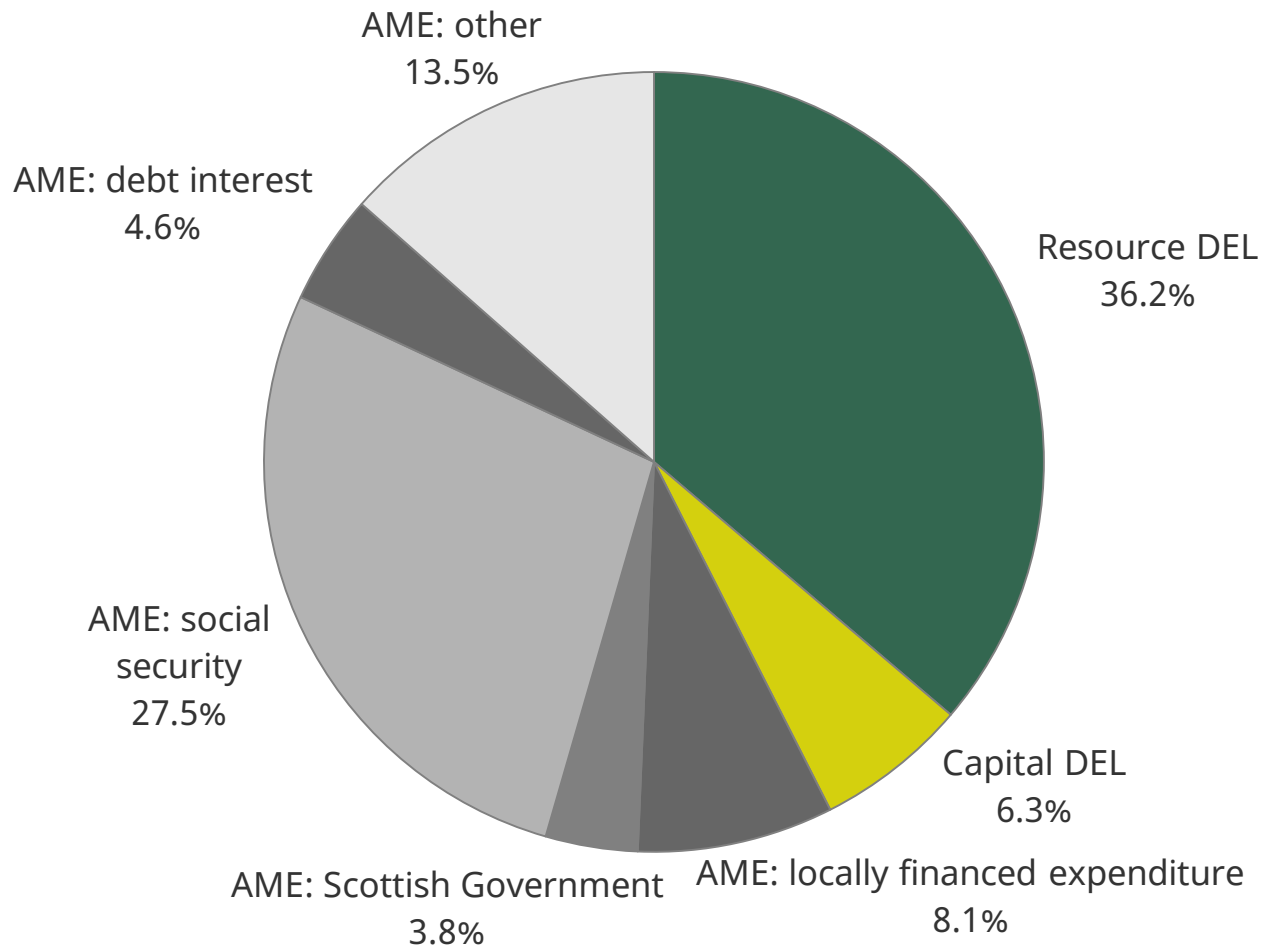


## IFS Green Budget 2019

Spending Round 2019: keeping perspective

Ben Zaranko

# Breakdown of public spending in 2018–19



Source: Office for Budget Responsibility, March 2019 Economic and Fiscal Outlook

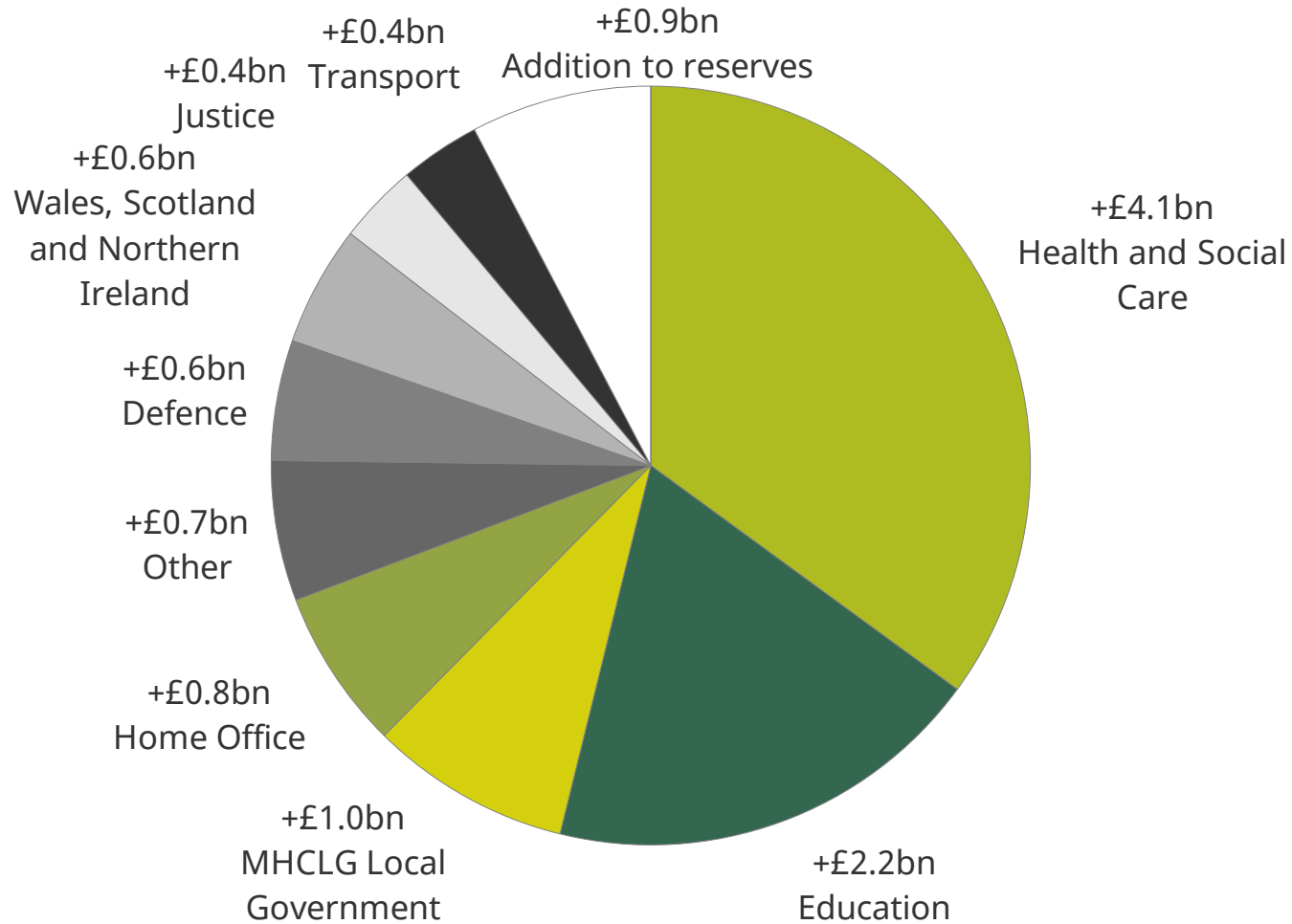
# Spending Round 2019: what did we learn?

## The Chancellor allocated budgets for departments for 2020–21

### Two notable features:

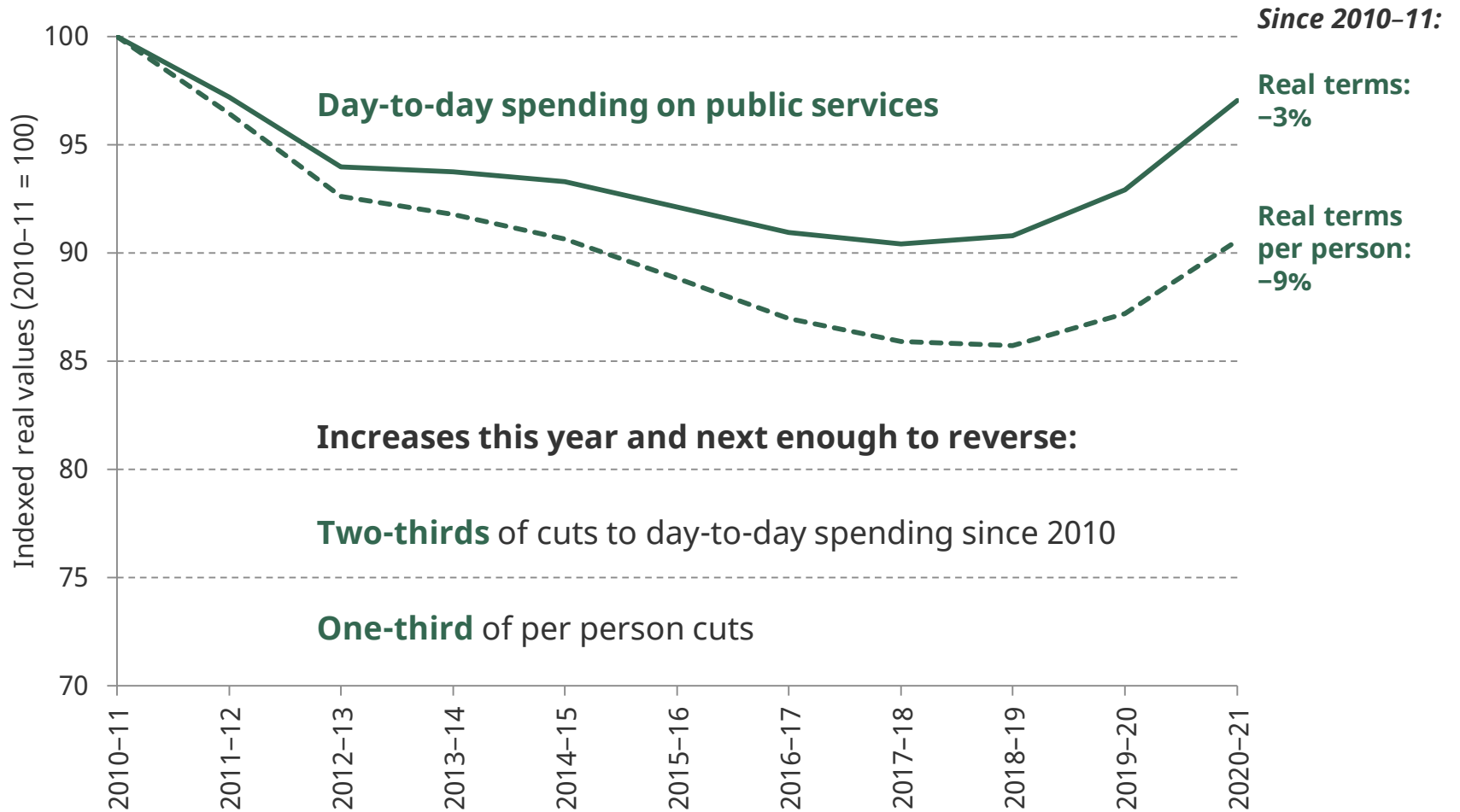
- No department facing a real-terms budget cut
- The size of the increase in day-to-day spending
  - 4.4% increase over and above economy-wide inflation
  - £13.8 billion real-terms increase between this year and next

# Where is the £13.8 billion increase going?



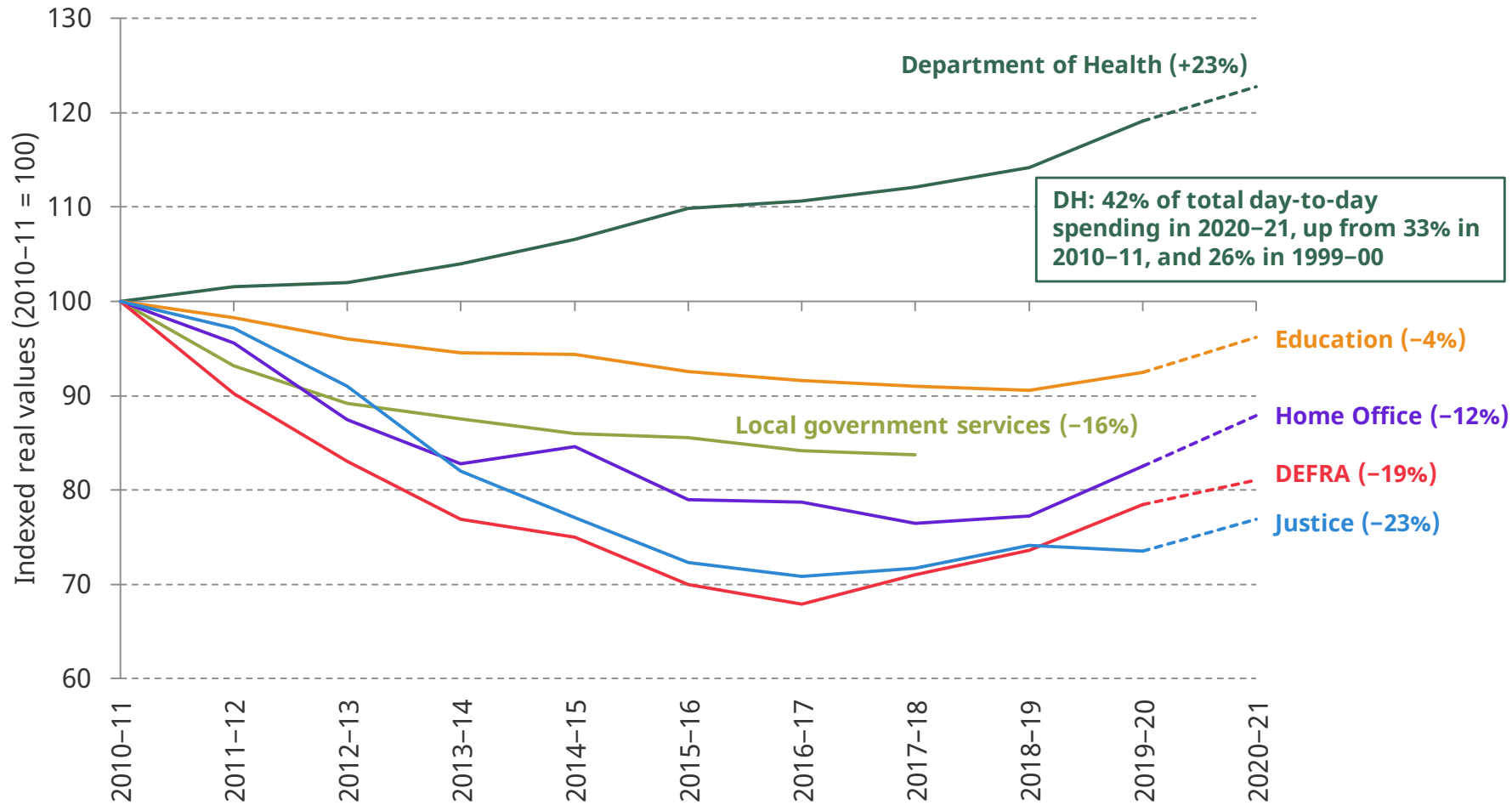
Notes and sources: See Figure 6.2 of the Green Budget

# Keeping perspective: cuts since 2010



Notes and sources: See Figure 6.3 of the Green Budget

# Winners and losers over the past decade



Note: 'Local government services' refers to service spending by English local authorities, based on final outturn data available only up to 2017-18. All other figures refer to resource DEL (excluding depreciation). Full notes and sources: see Figure 6.4 of the Green Budget

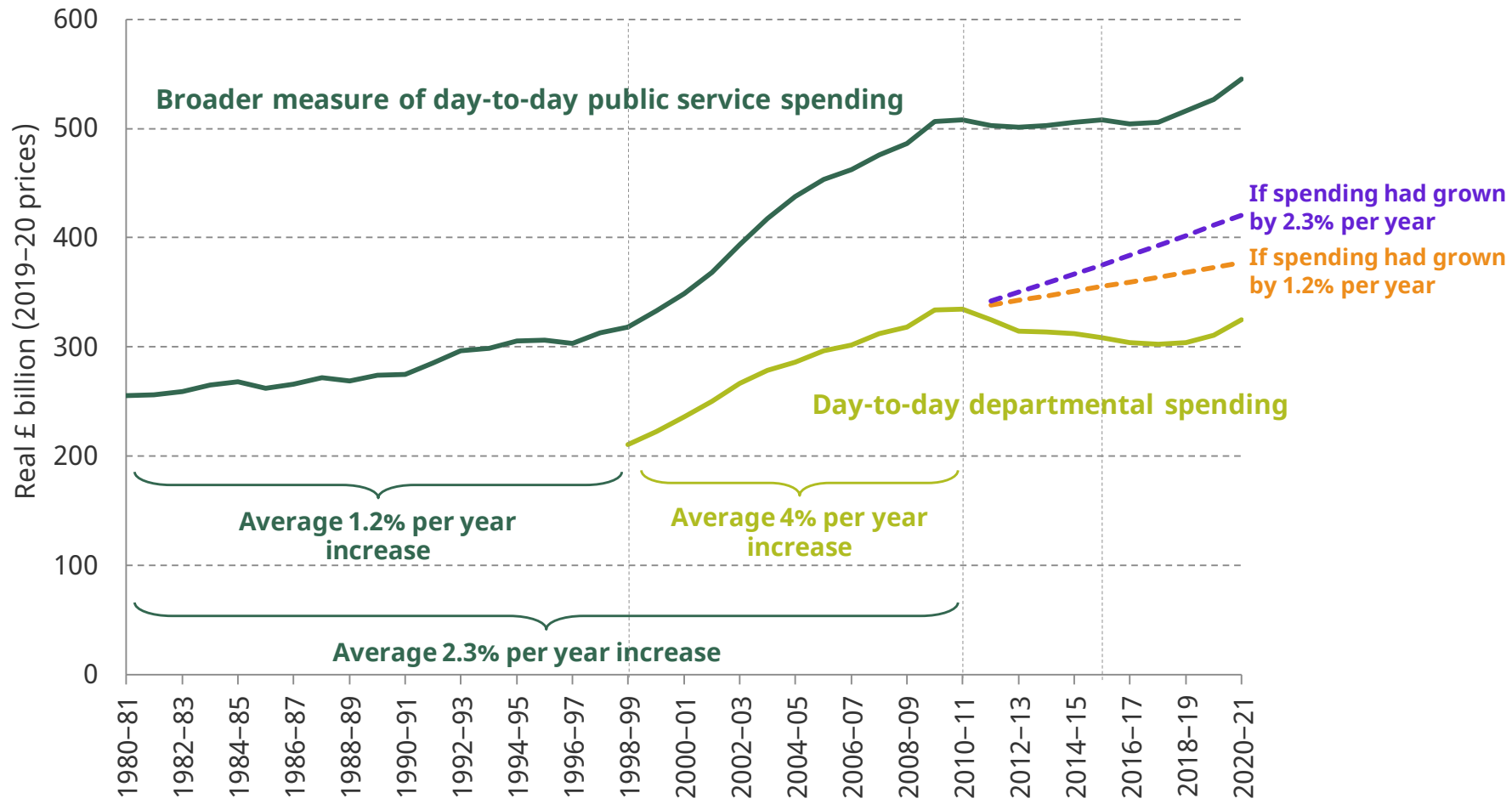
### **The Chancellor's announcements must be seen in the context of spending cuts since the financial crisis**

- Day-to-day spending on public services now 14.1% of national income, compared with 16.2% in 2007–08
  - excluding health, now at 8.1% of national income vs. 11.1% in 2007–08
  - offset in part by increase in locally financed expenditure
- Total spending now at 38.3% of national income vs. 38.9% in 2007–08
- Era of cuts looks to be over – but has by no means been undone

### **Announcements must also be considered in the context of:**

- Historic trends
- Labour's plans at the 2017 general election

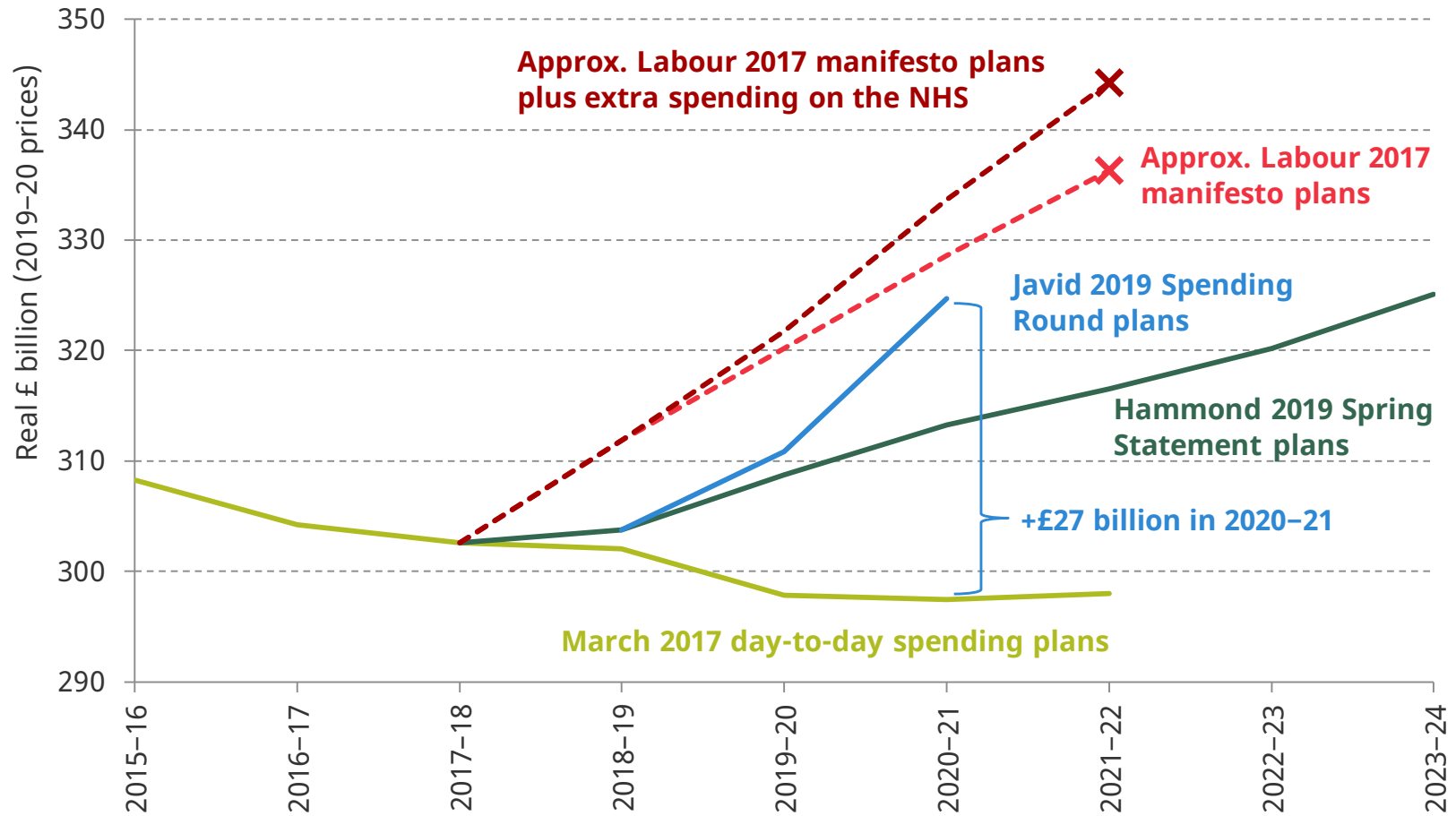
# Keeping perspective: historic context



Notes and sources: See Figure 6.5 of the Green Budget



# Keeping perspective: 2017 manifesto plans



Figures refer to day-to-day spending on public services. Full notes and sources: See Figure 6.8 of the Green Budget

## Where are we now?

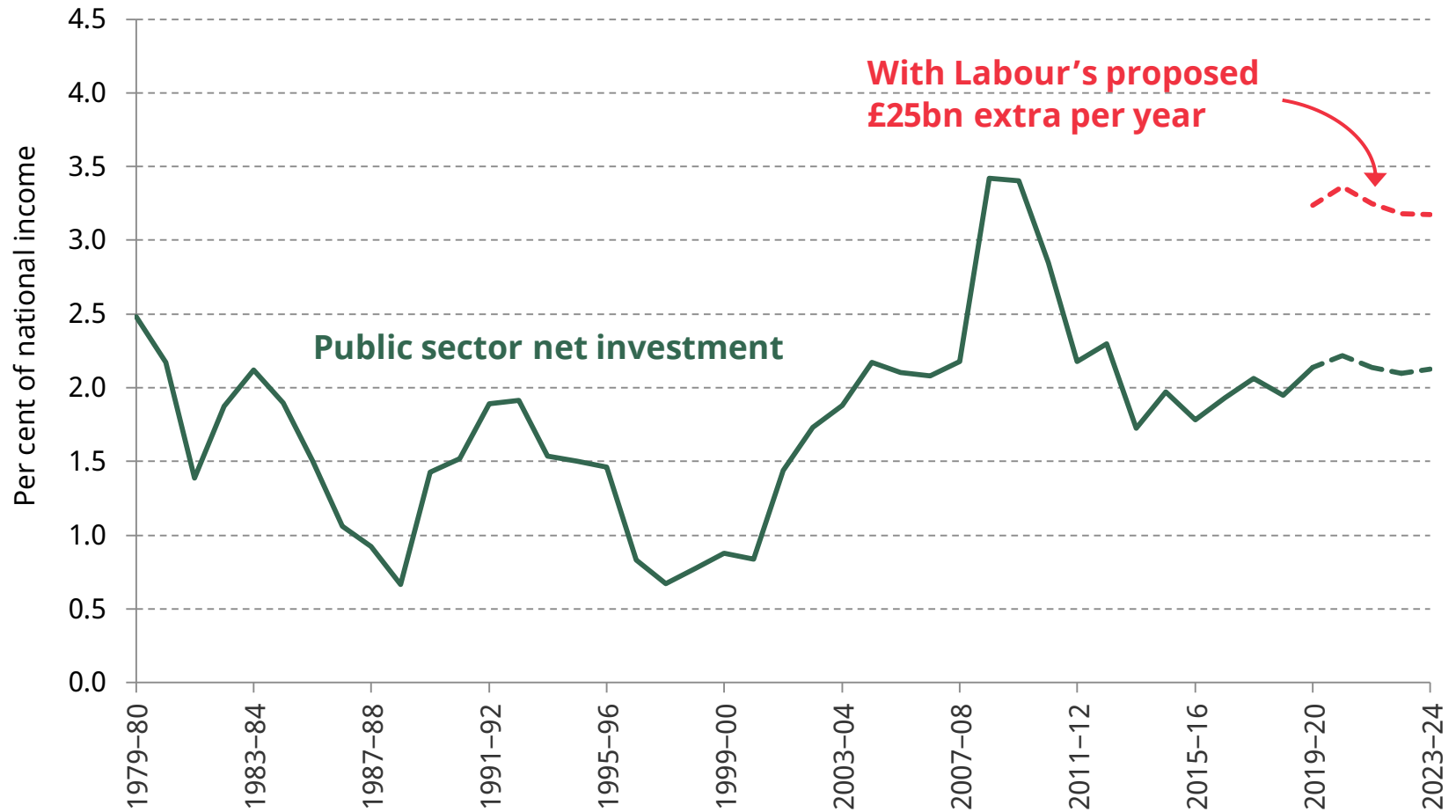
**Spending on public services is considerably lower than where might have been predicted pre-crisis**

**Latest plans for 2020–21 strikingly similar to the level of day-to-day spending implied by the Labour Party's 2017 manifesto**

- But composition of spending is different. Conservatives have:
  - broadly matched Labour's 2017 plans for school funding, and gone some way on further education and social care
  - exceeded Labour's spending plans on the police and the NHS
  - **not** (yet) matched Labour's plans for big additional spending increases on early years and university education

**Labour also had plans for a substantial increase in investment spending**

# The gap between Conservatives and Labour is greater for investment spending



Notes and sources: See Figure 6.9 of the Green Budget

## Final thoughts

**Given the stated policies of both main parties, it looks likely that austerity for public services is over for now**

**Higher spending will mean some combination of higher taxes and/or higher borrowing (relative to current plans)**

**The 2019 Spending Round provided breathing space for departments, but no real clarity for the medium term**

**If the economy fails to grow as hoped – for example due to a disruptive ‘no-deal’ Brexit – the return to significant spending increases could be short-lived**