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Prospects for public spending

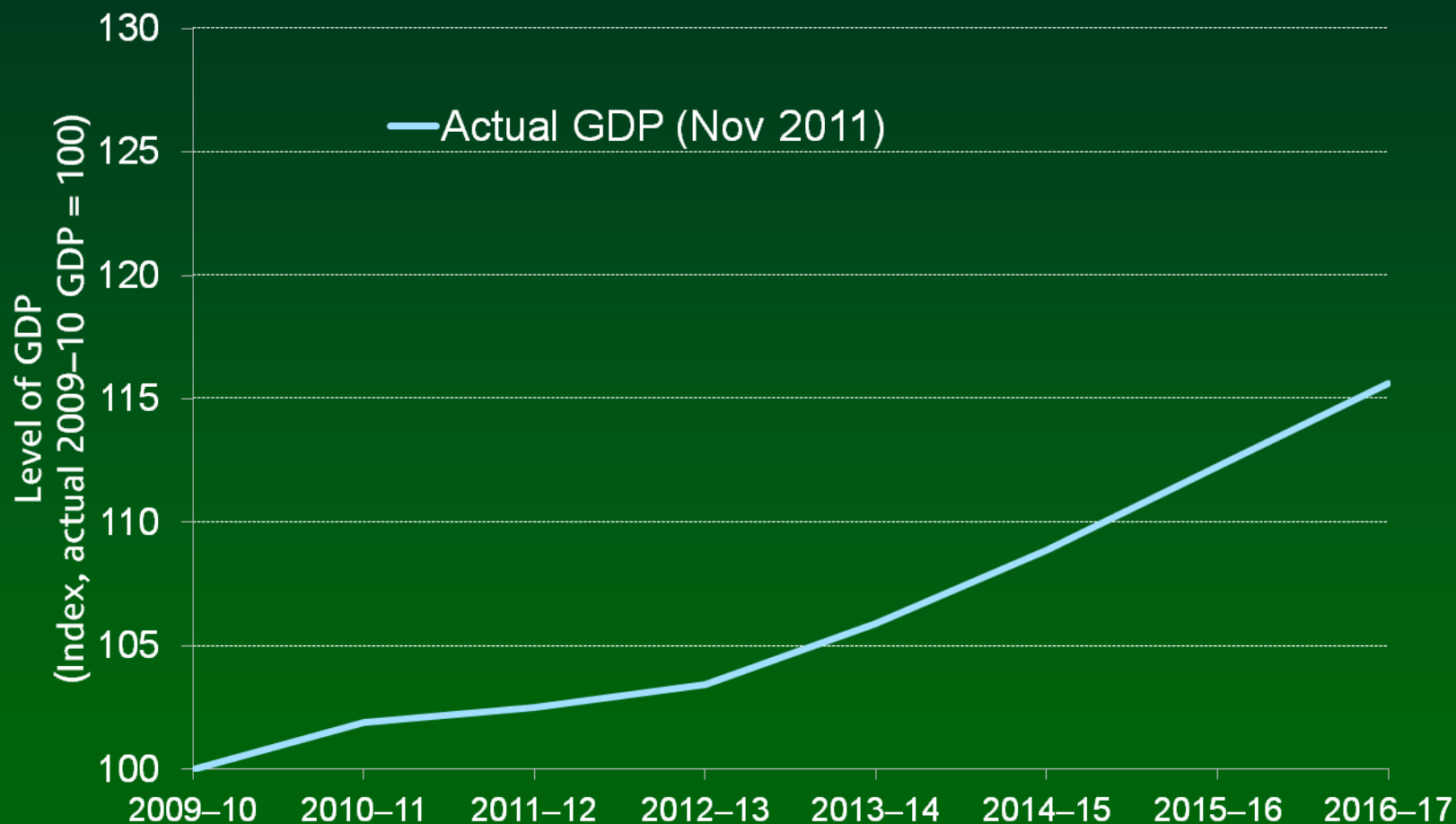
Carl Emmerson

Presentation at Economics National Teachers' Conference: The UK
Economy, London, 20th June 2012

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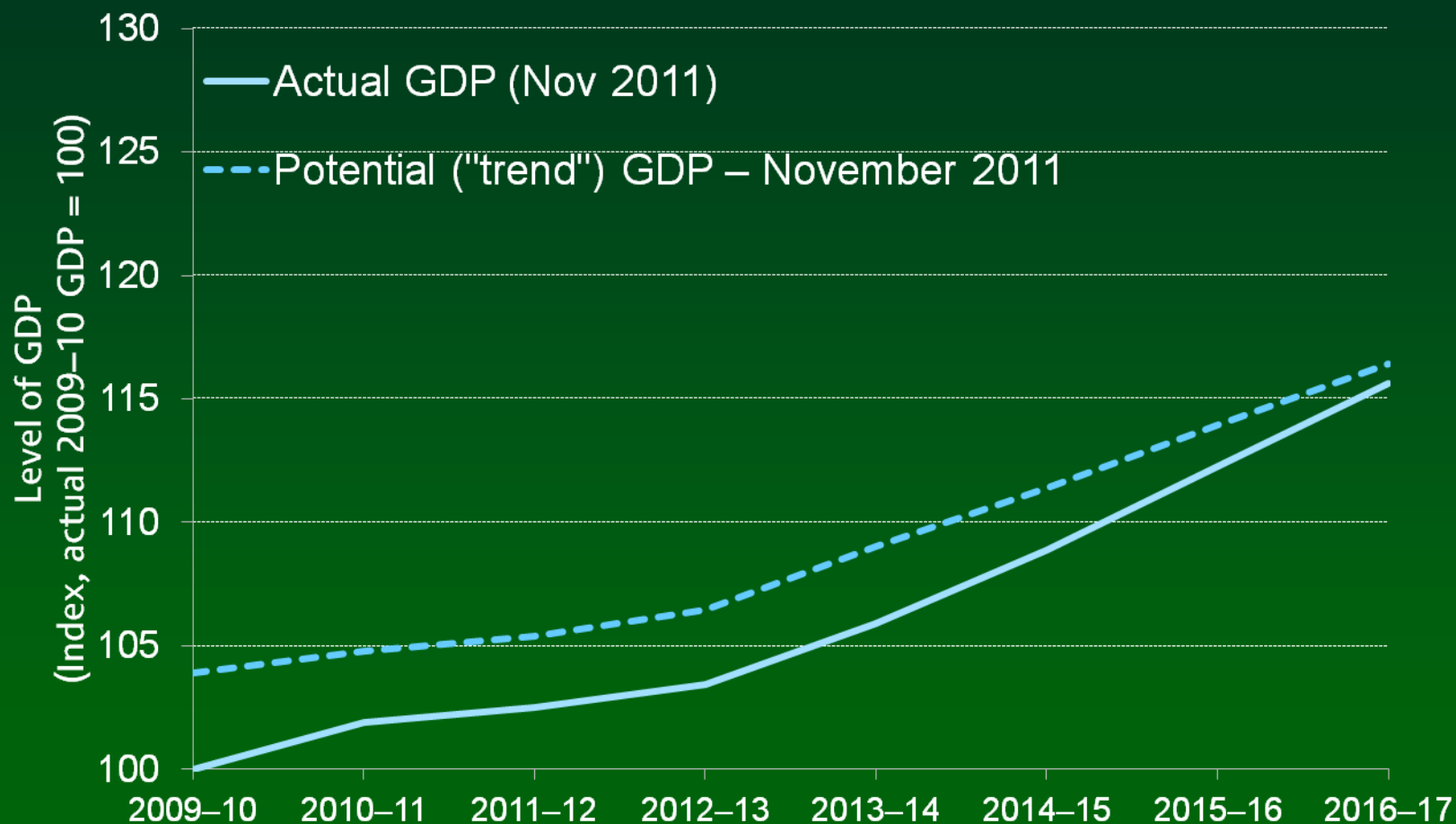
Weak short-term growth thought to reflect a permanent problem

Comparison of forecasts for real GDP growth and trend GDP



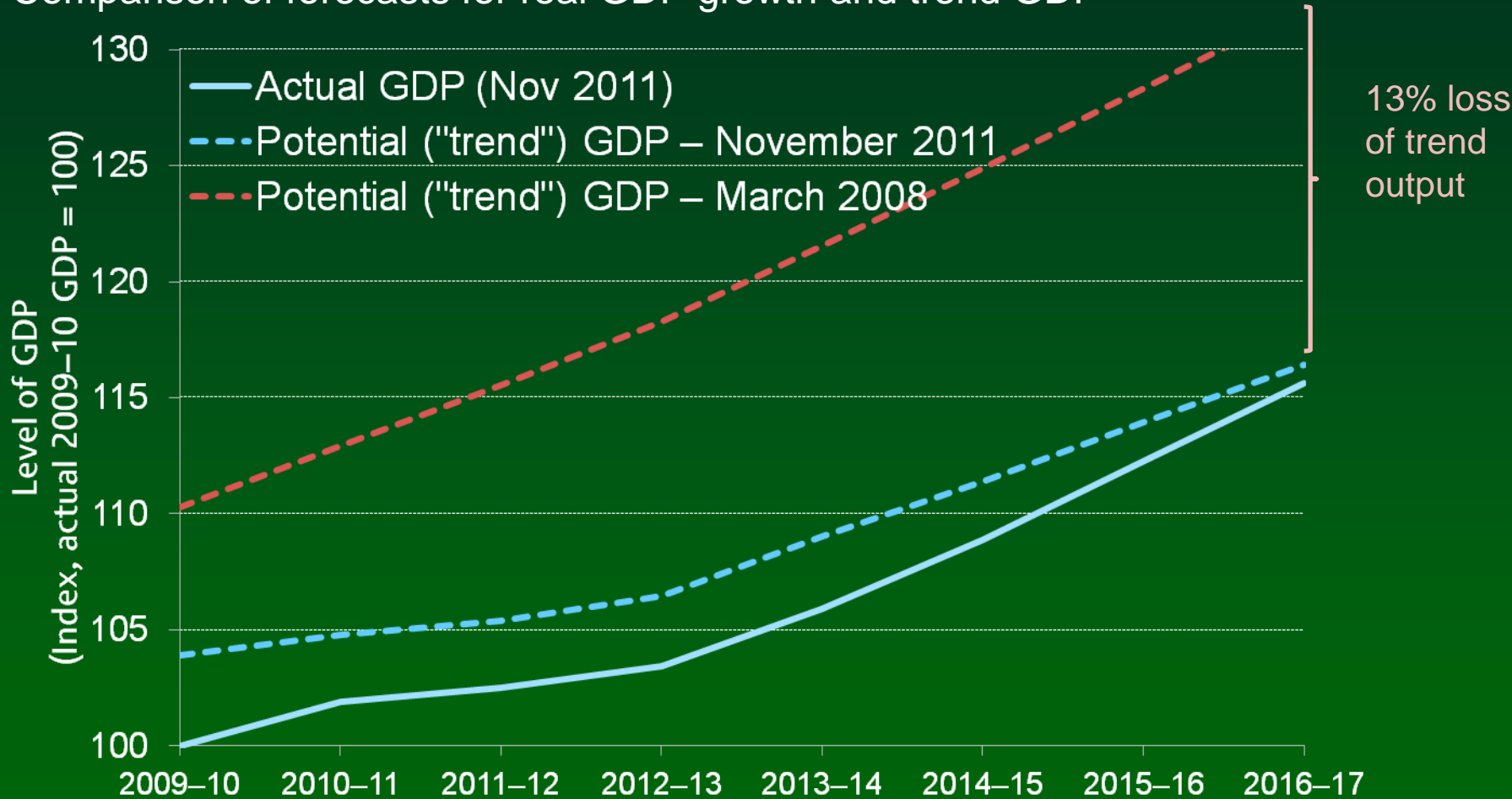
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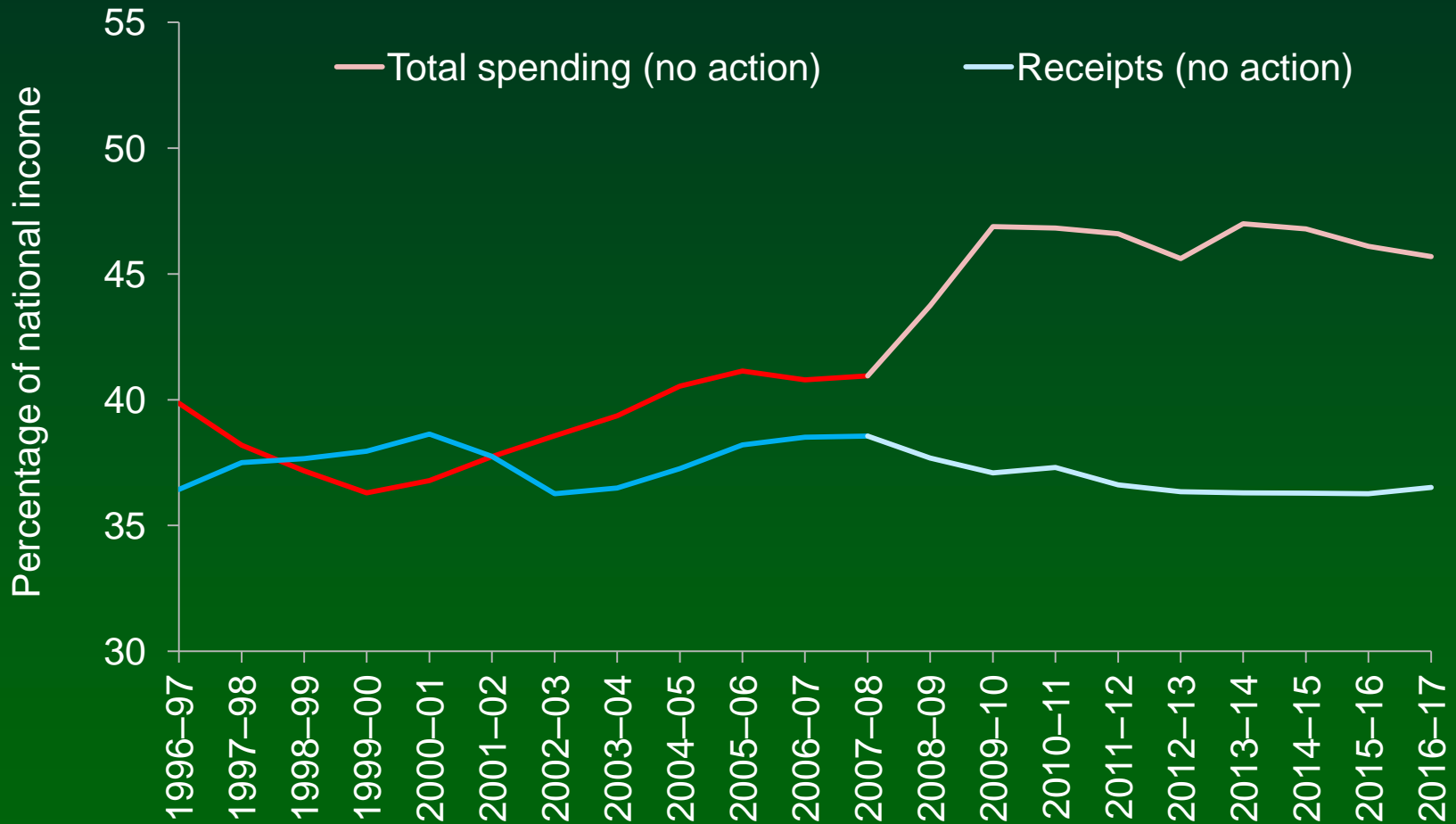


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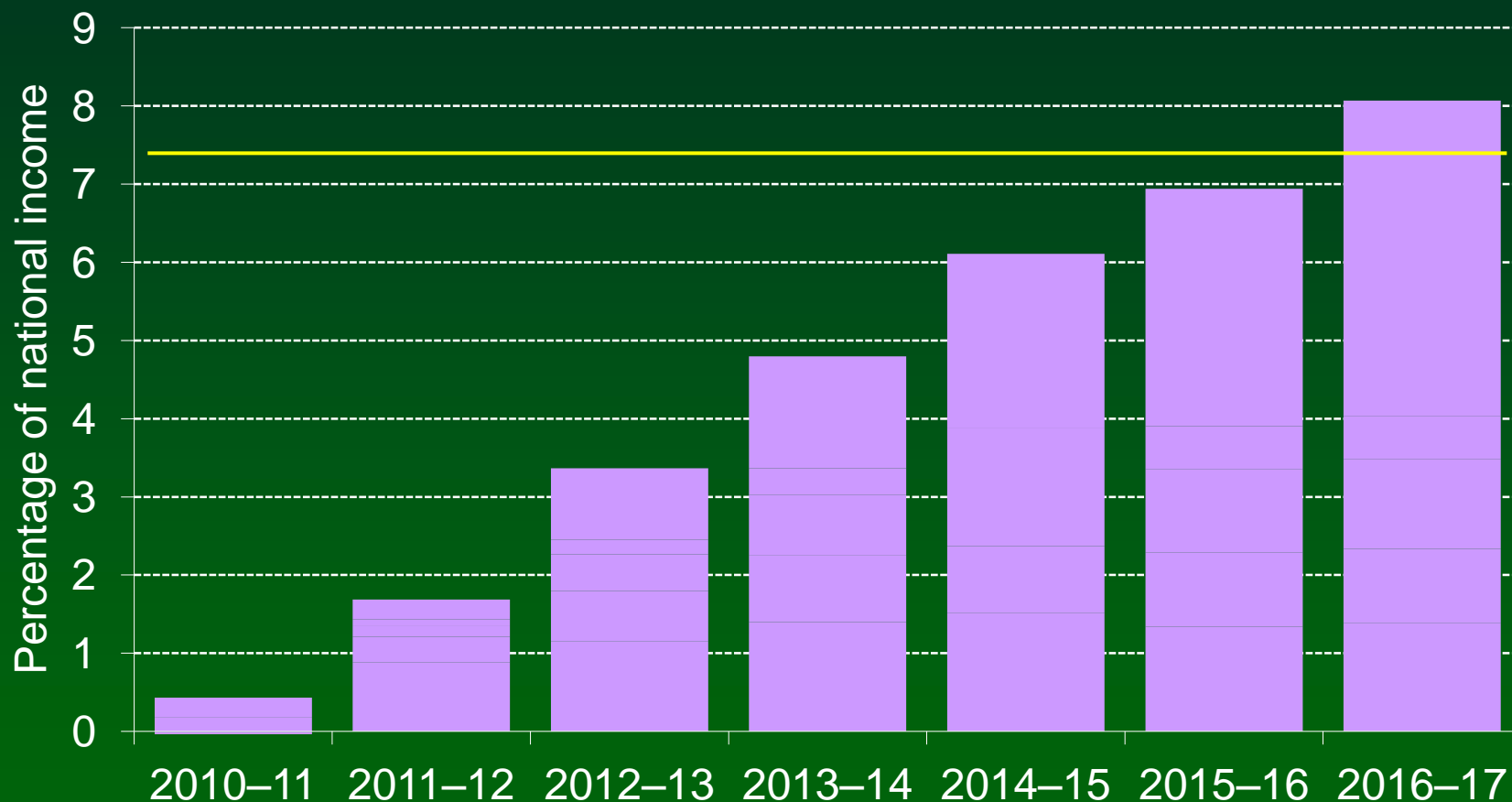


The big fiscal picture



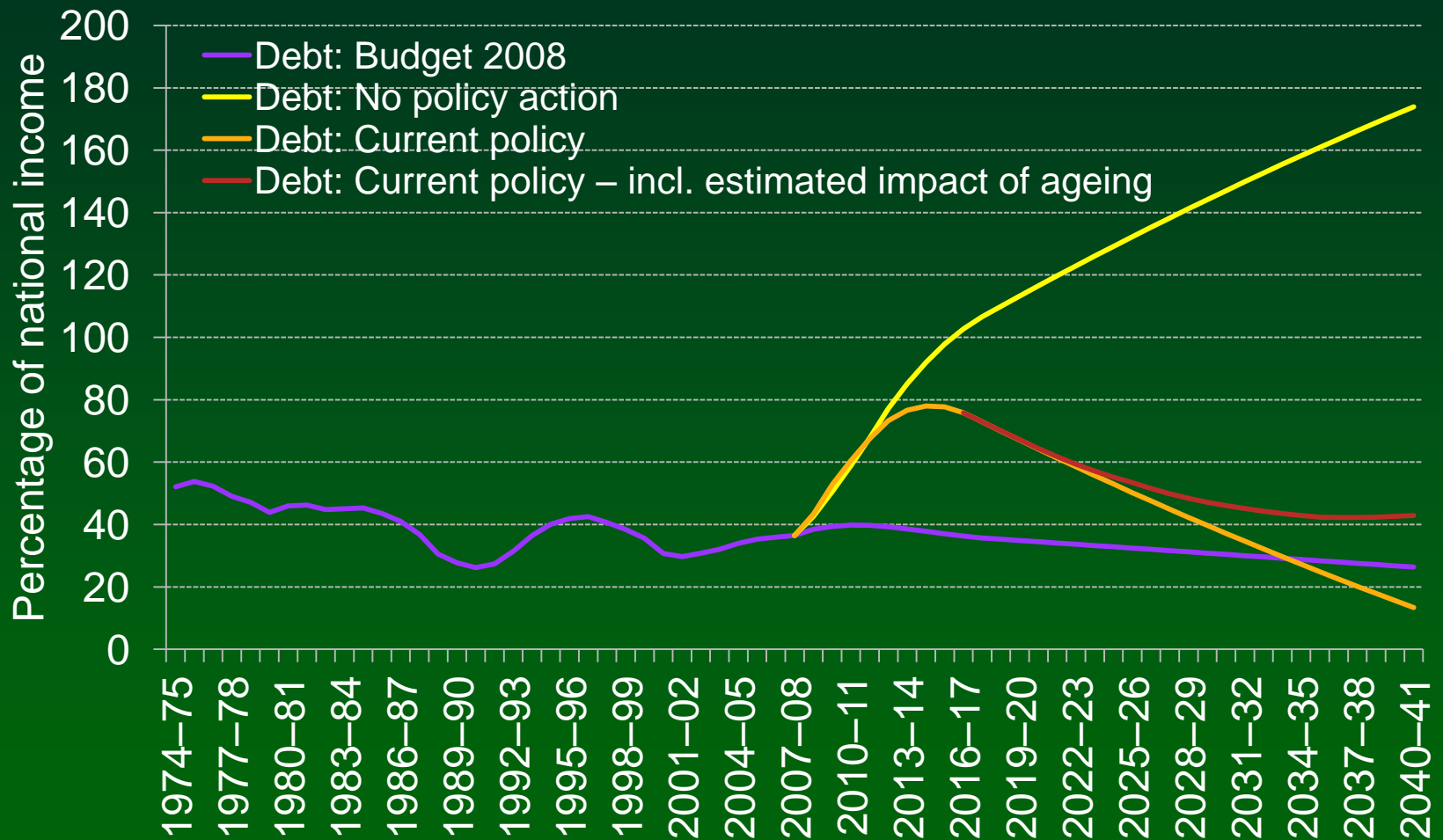
The cure (March 2012): 8.1% national income consolidation over 7 years (£123bn)

Mar 2012: 7.6% national income (£115bn) hole in public finances



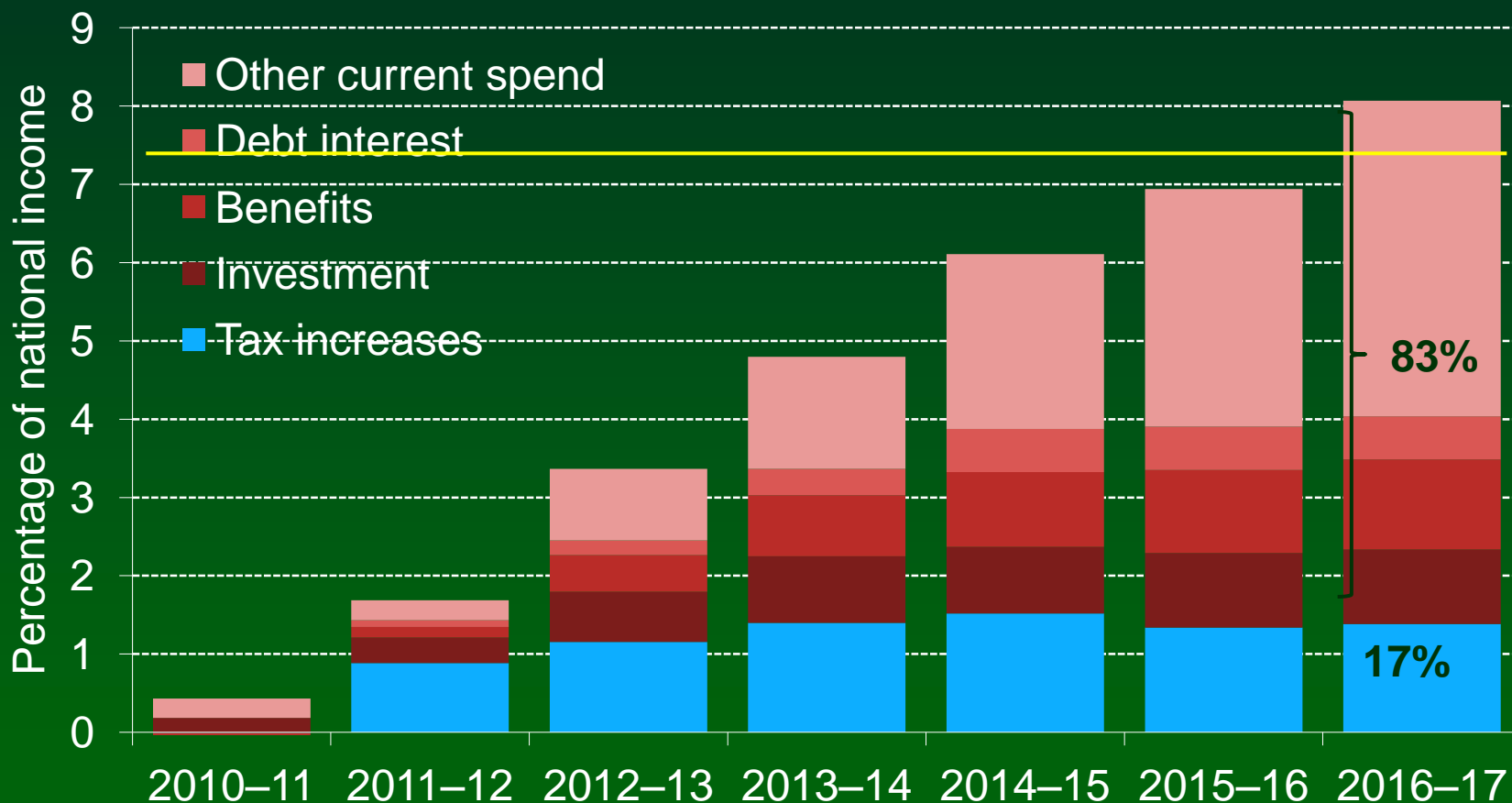
Debt back on a more sustainable path

- but to remain above pre-crisis levels for a generation

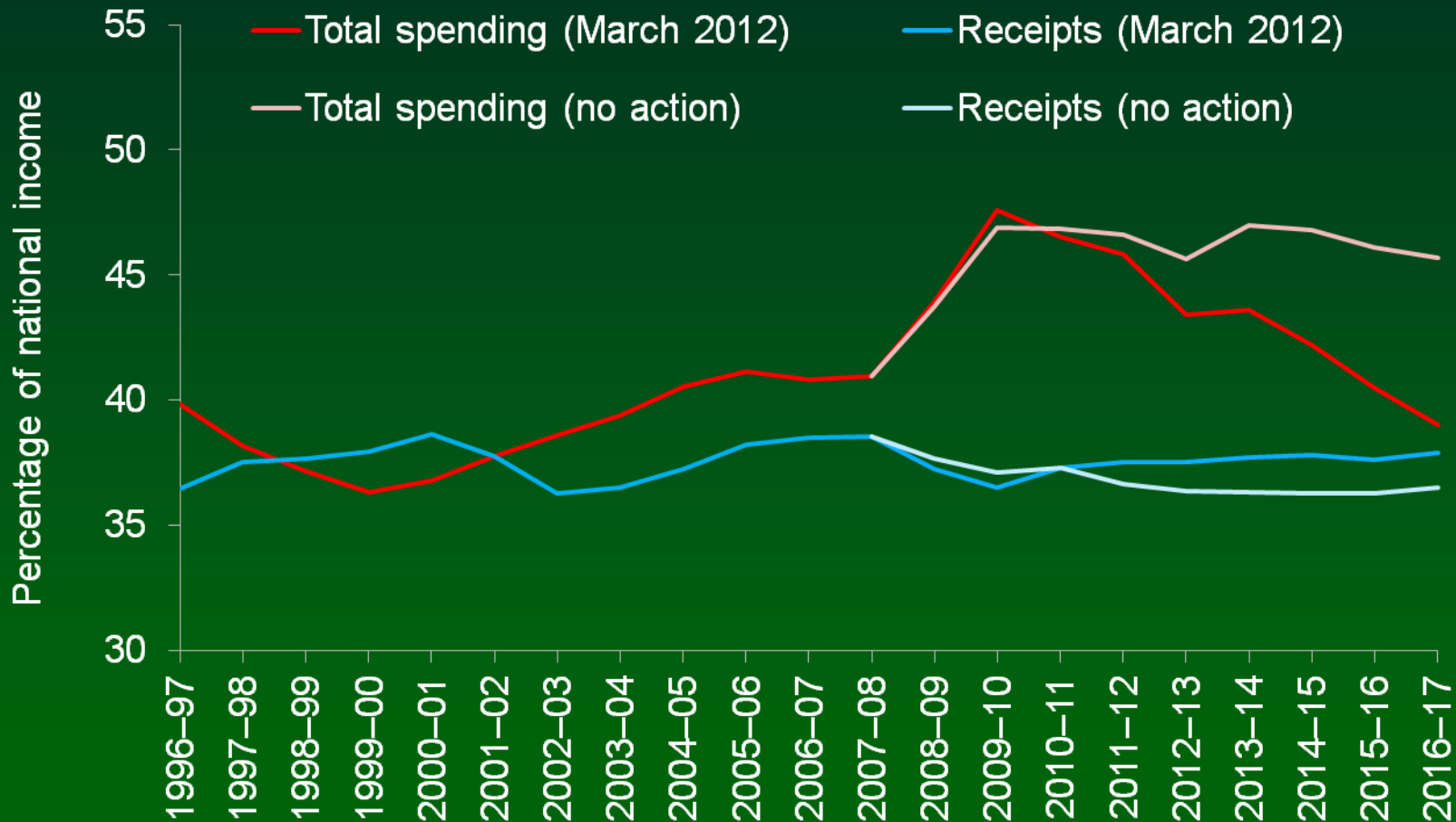


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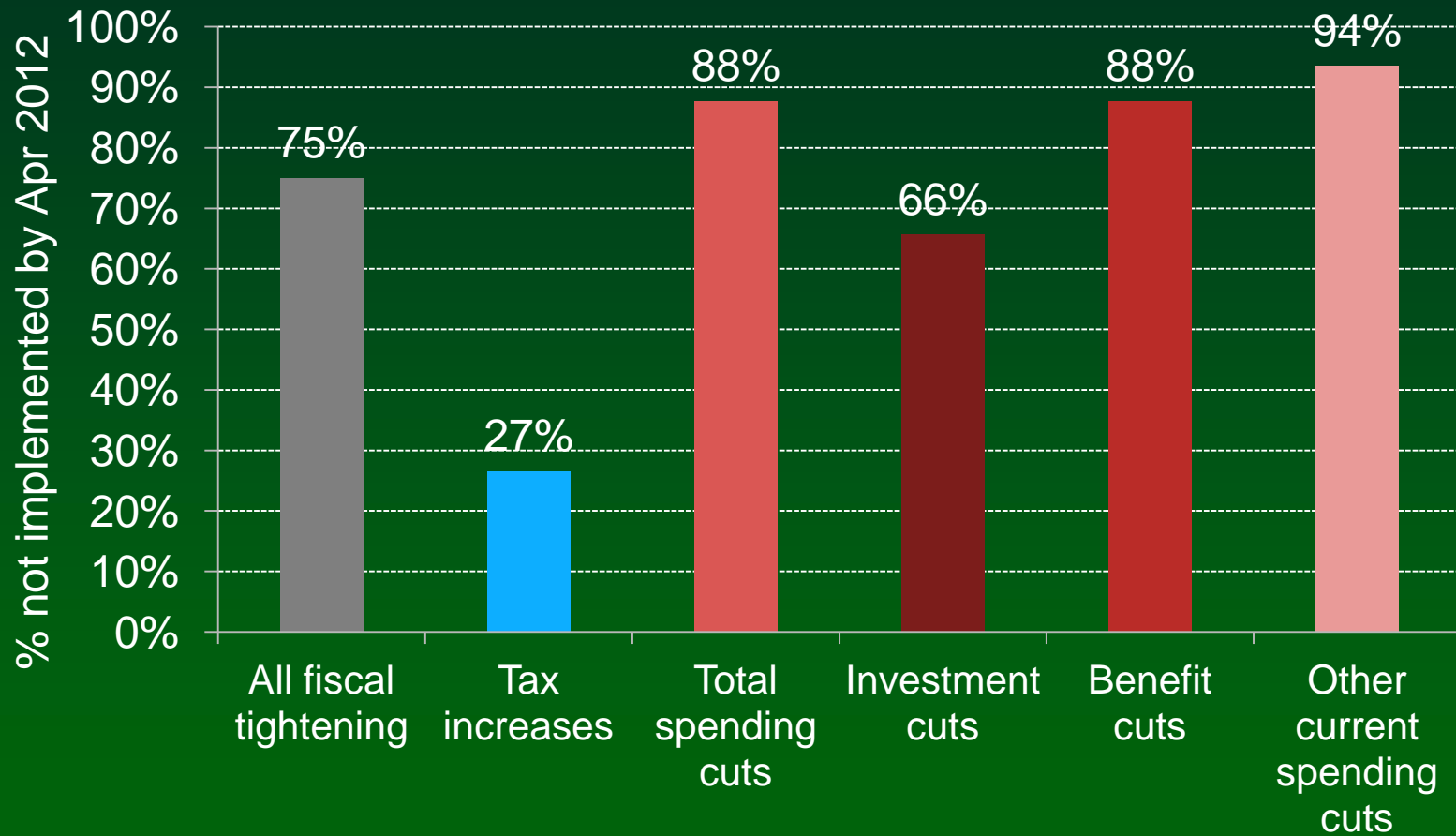
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Forecasts for fiscal aggregates broadly unchanged



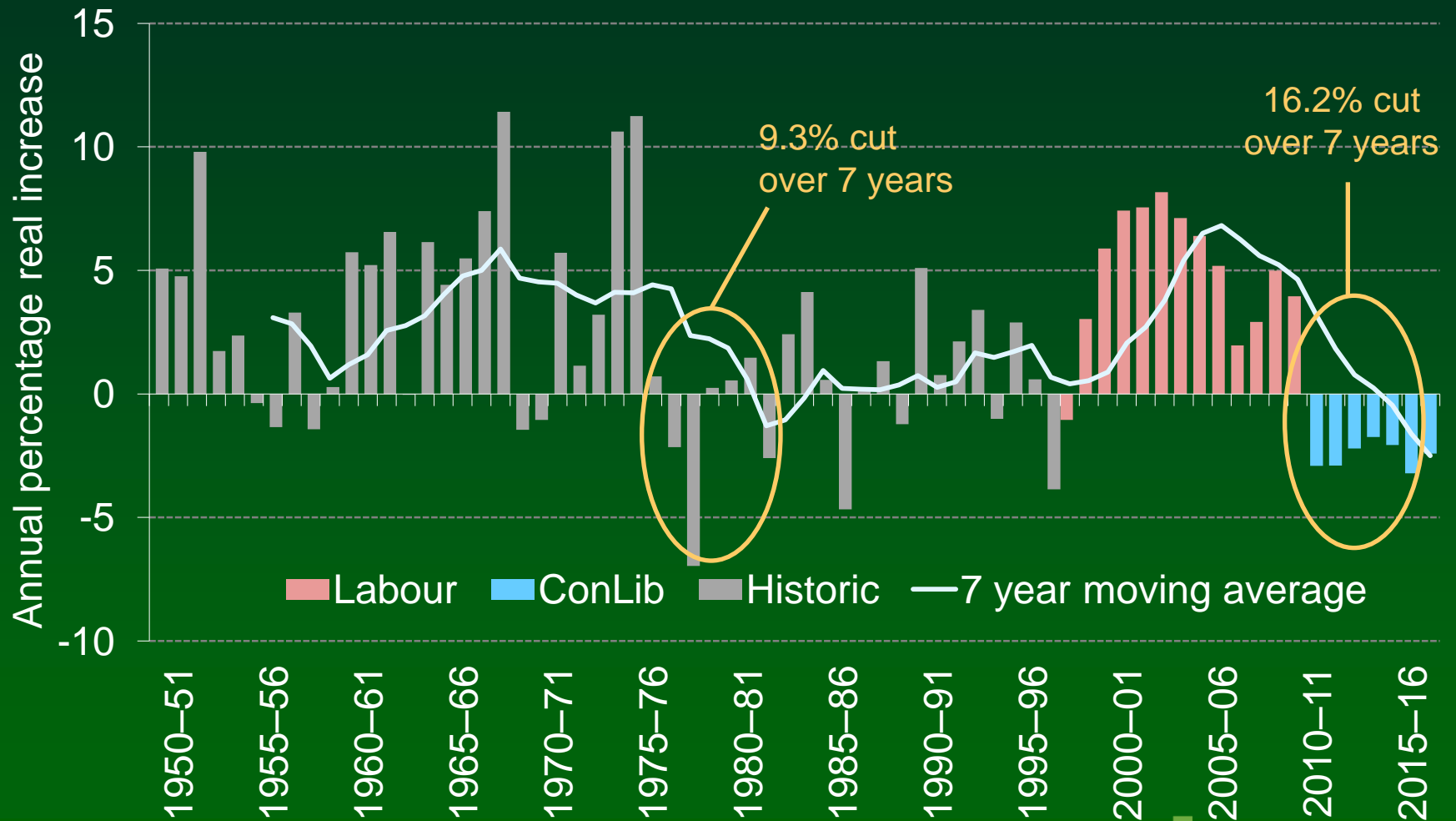
The pain to come



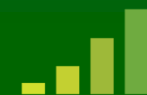
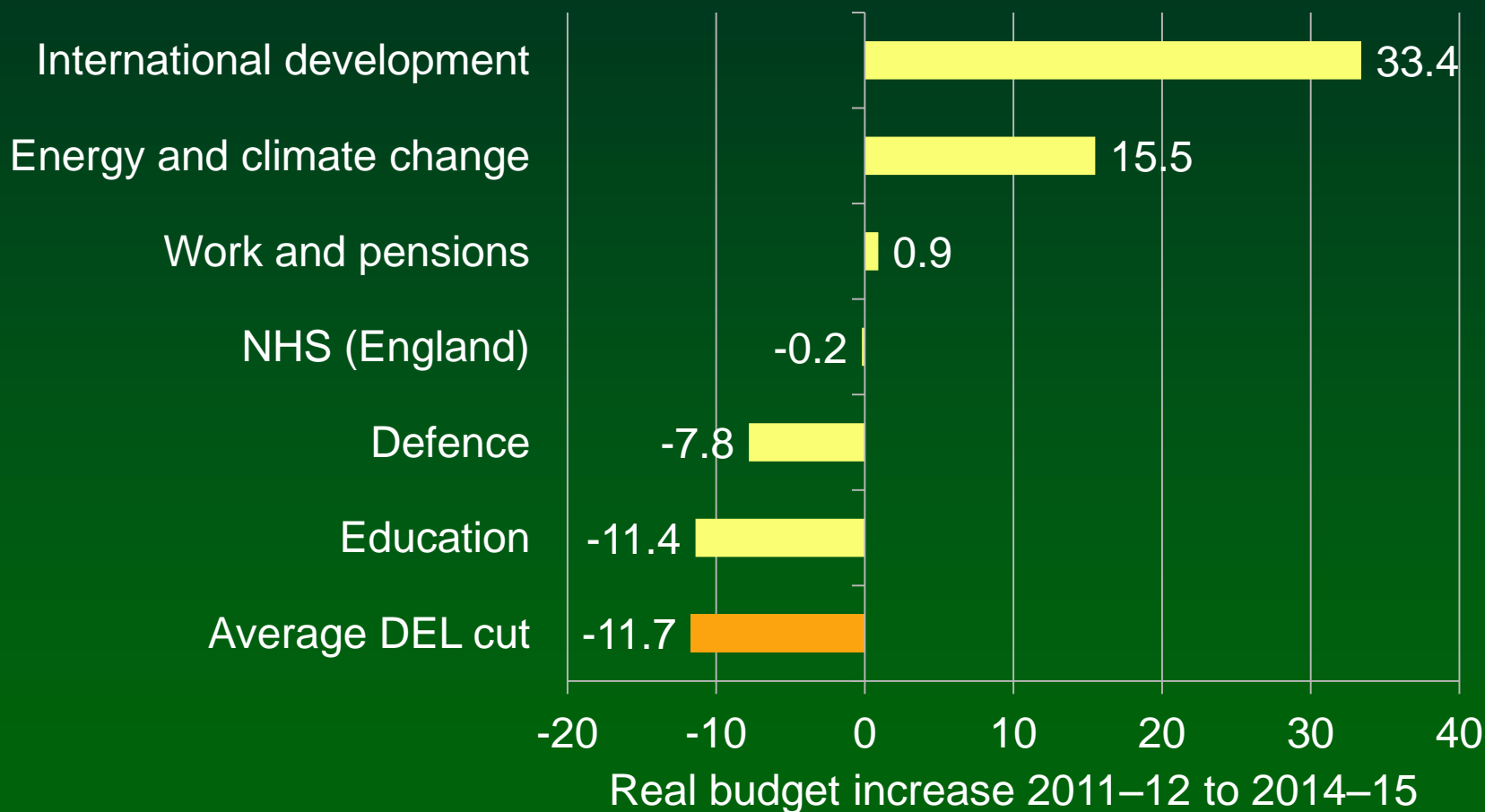
Can the tight spending plans be delivered?

- Such cuts to public service spending not done in the UK before
 - never more than 2 consecutive years of cuts previously
 - spending plans imply April 2010 to March 2017 will be the tightest 7 years for public service spending since WWII
- Only comparable international experience is Ireland in late 1980s
- On the other hand cuts follow a period of big spending increases
 - 12 consecutive years of real increases (1998–99 to 2009–10)
 - by 2016–17 total public service spending will be the same as in 2004–05 in real terms (2000–01 as a % of national income)

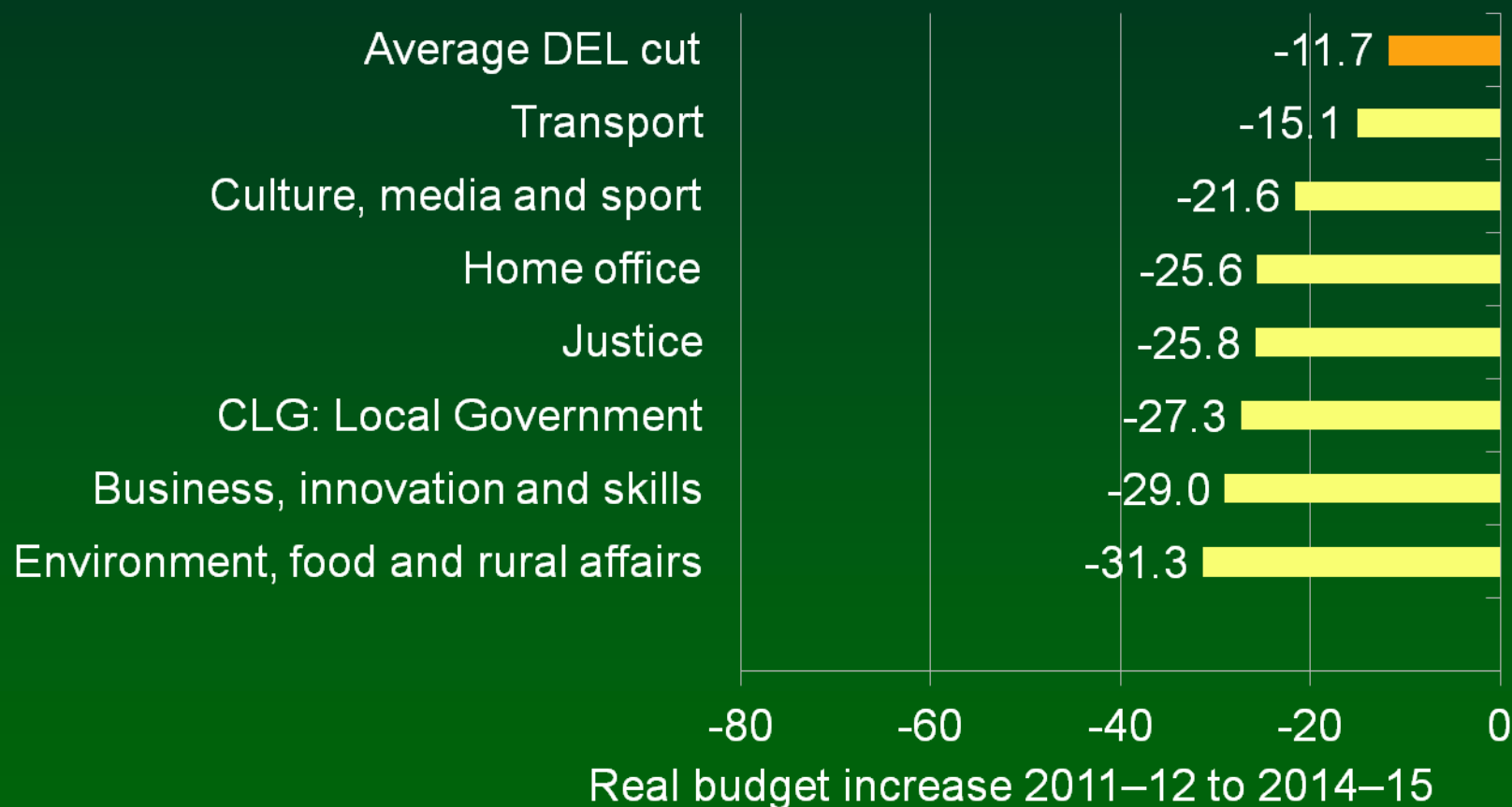
7-year squeeze on public service spending



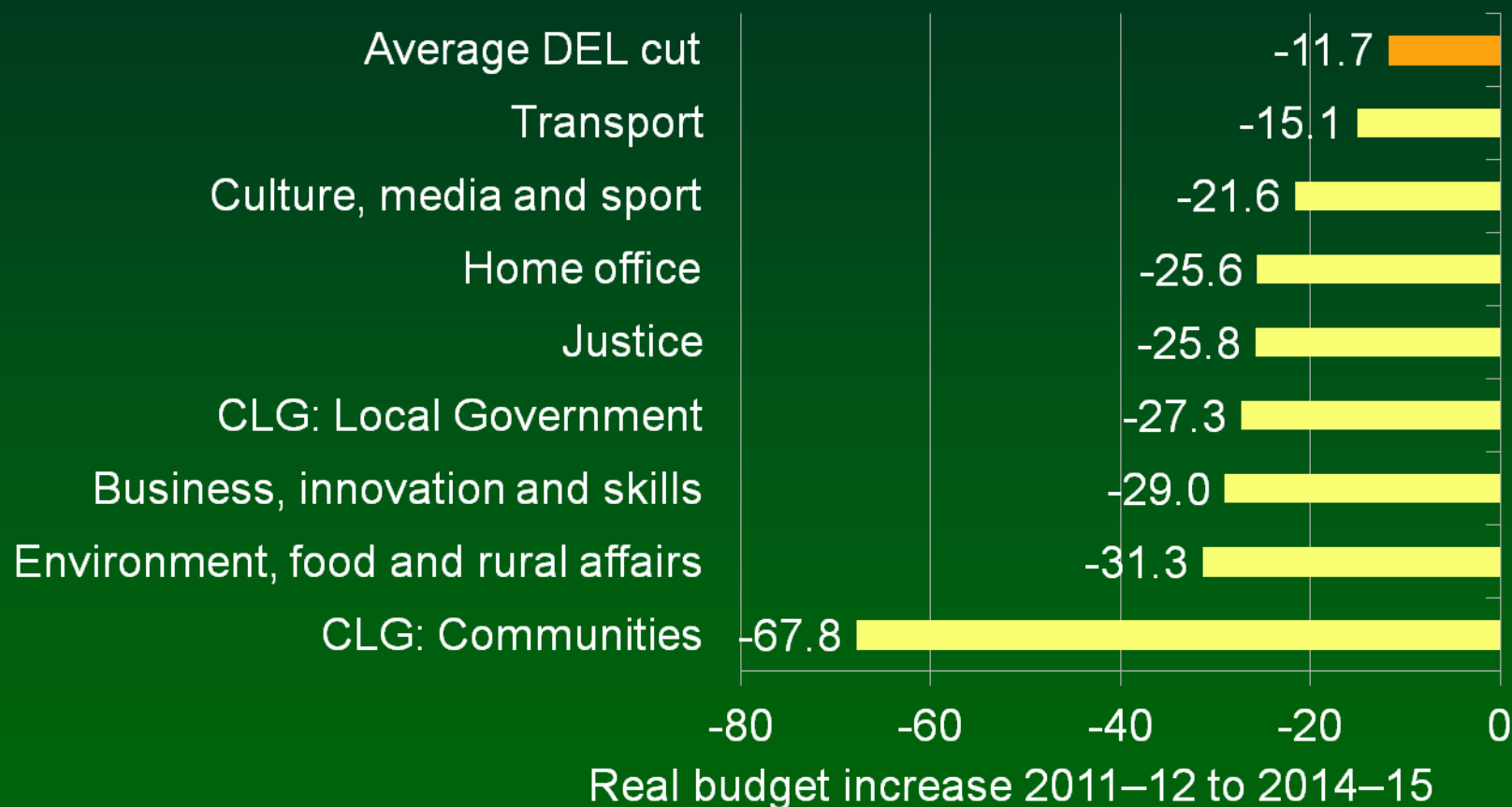
Whitehall departments: 'winners'



Whitehall departments : 'losers'

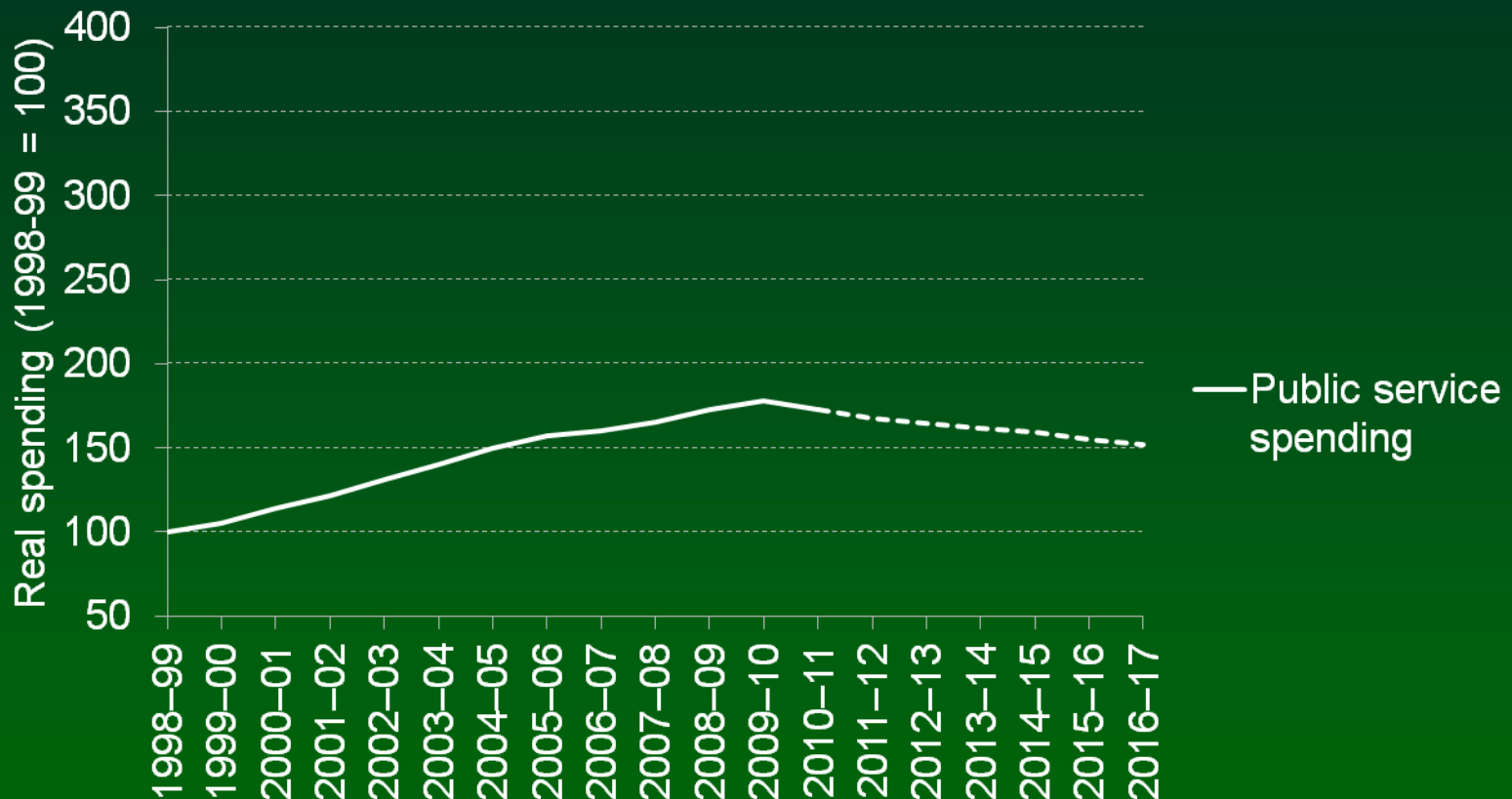


Whitehall departments : 'losers'



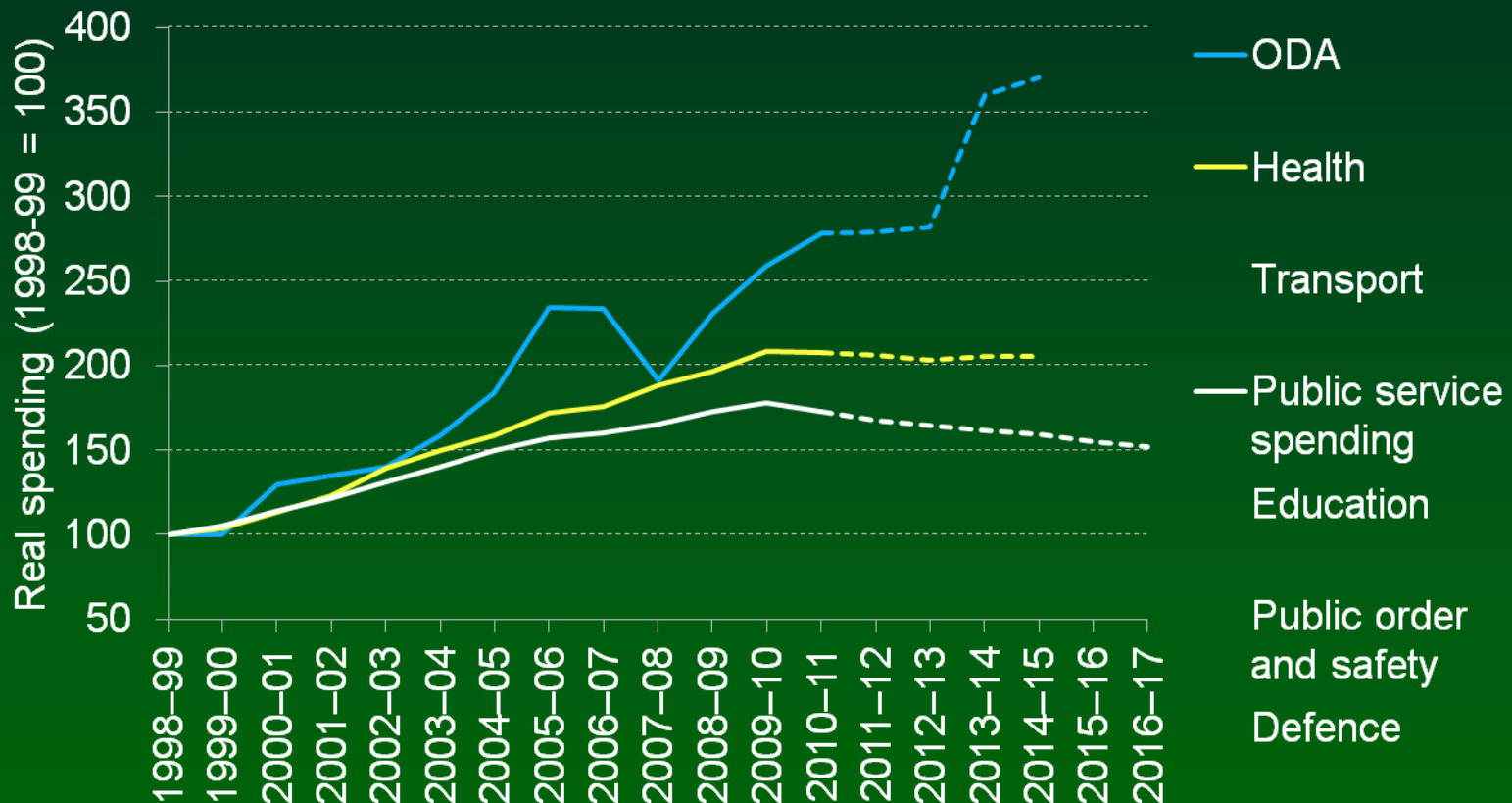
Can the tight spending plans be delivered?

- How tight will they feel?



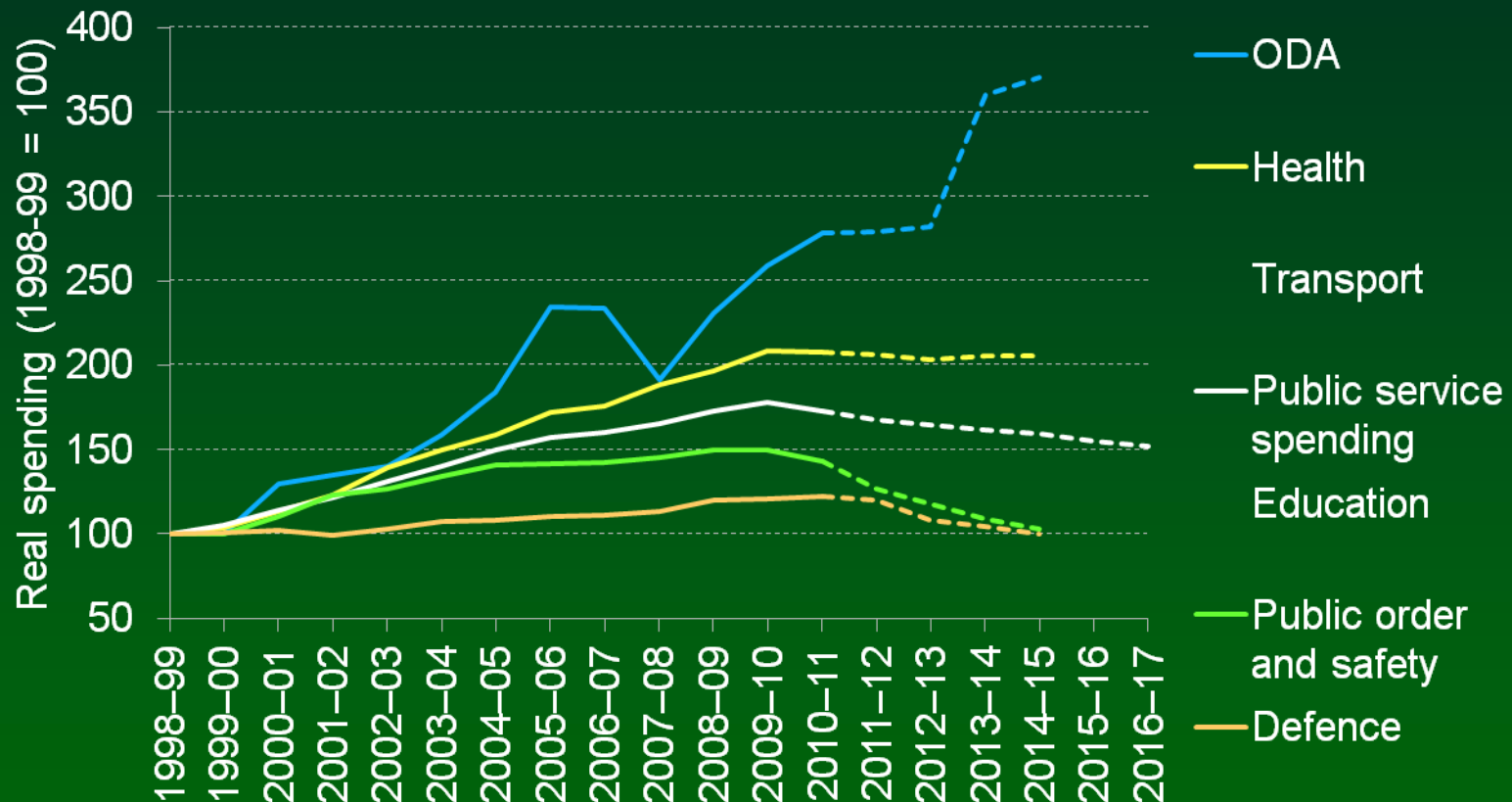
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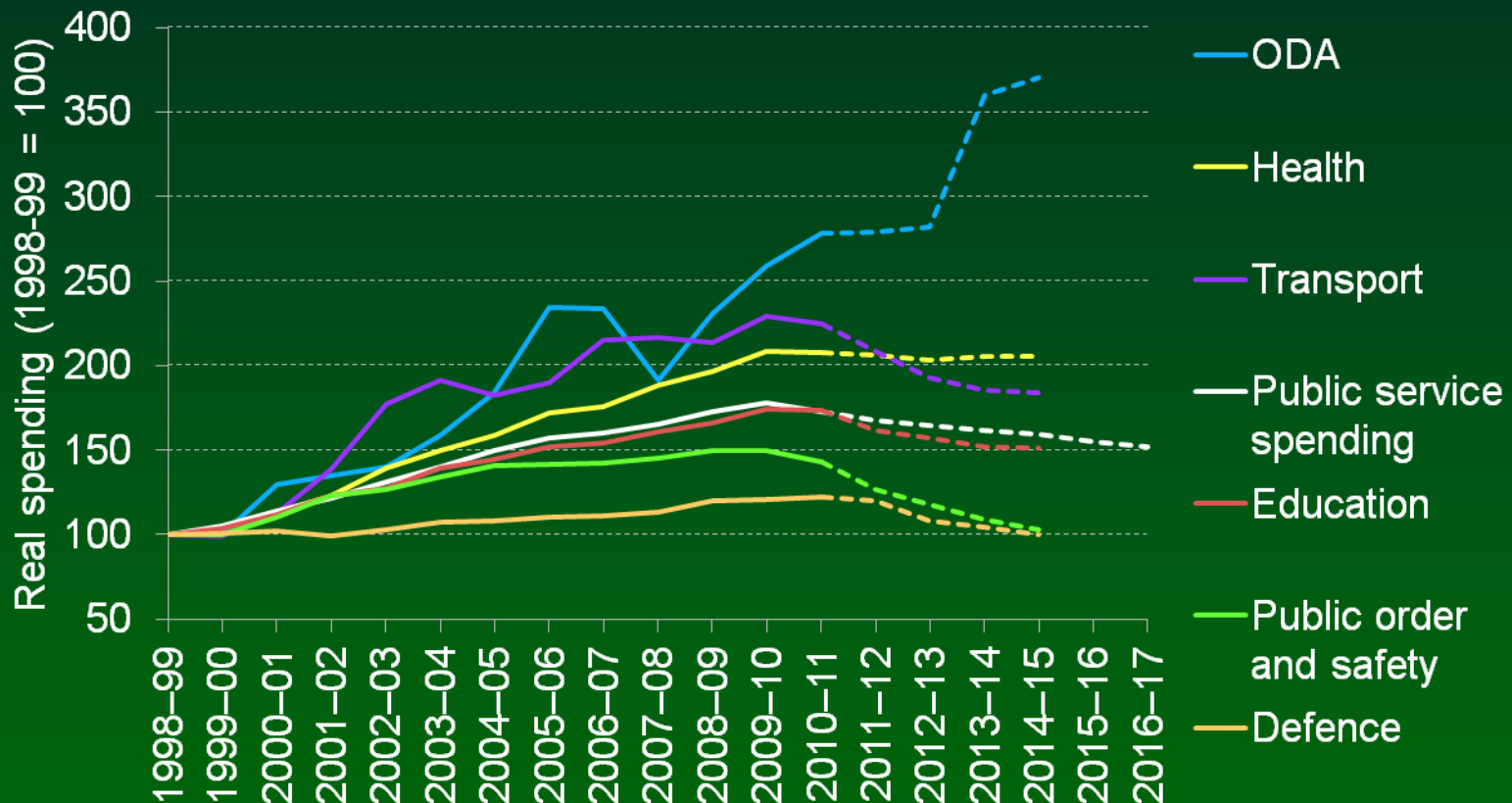
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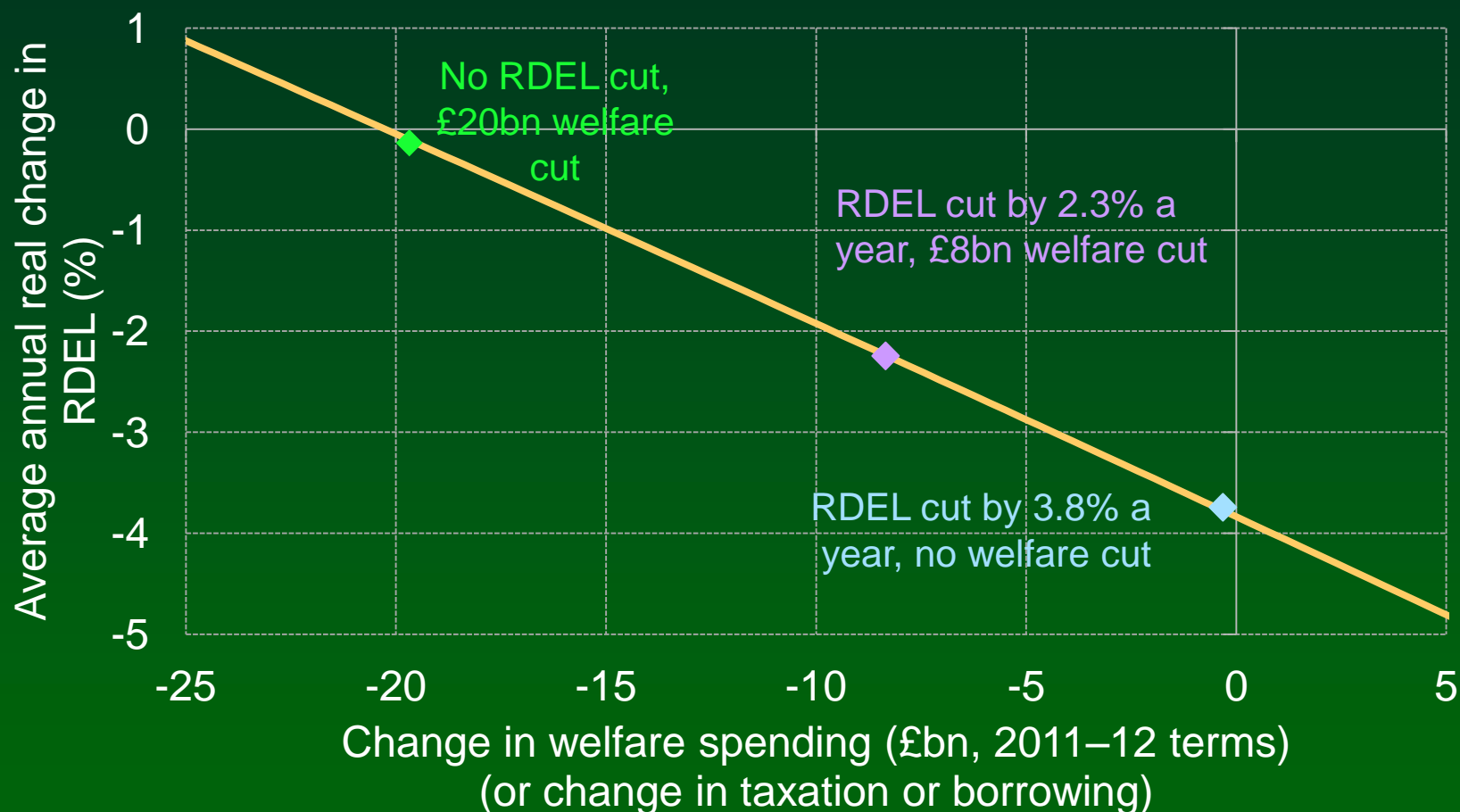


Can the tight spending plans be delivered?

- How tight will they feel?



Trade-off between cuts to public service spending and welfare cuts: 2015–16 and 2016–17



Note: HM Treasury and IFS calculations. Resource Departmental Expenditure Limits (RDEL) is the non-investment component of the spending by central government on the delivery and administration of public services.



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Conclusions

- Permanent hit to public finances from financial crisis estimated at £115 billion a year (in today's terms)
- Response is a £123 billion fiscal tightening by 2016–17
- Seven years from April 2010 imply the tightest seven-year squeeze on 'public service' spending since at least end of Second World War
- Spending Review 2010 plans imply:
 - overseas aid budget increased sharply
 - in England: NHS and schools relatively protected; deep cuts to: social housing, grant to local government and higher education institutions
- Details for cuts in 2015–16 and 2016–17 in the next Spending Review
 - this should happen no later than autumn 2013
 - if cuts to central government spending on public services to continue at same rate then £8bn more of welfare cuts needed



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