



# Institute for Fiscal Studies



## Our fiscal future

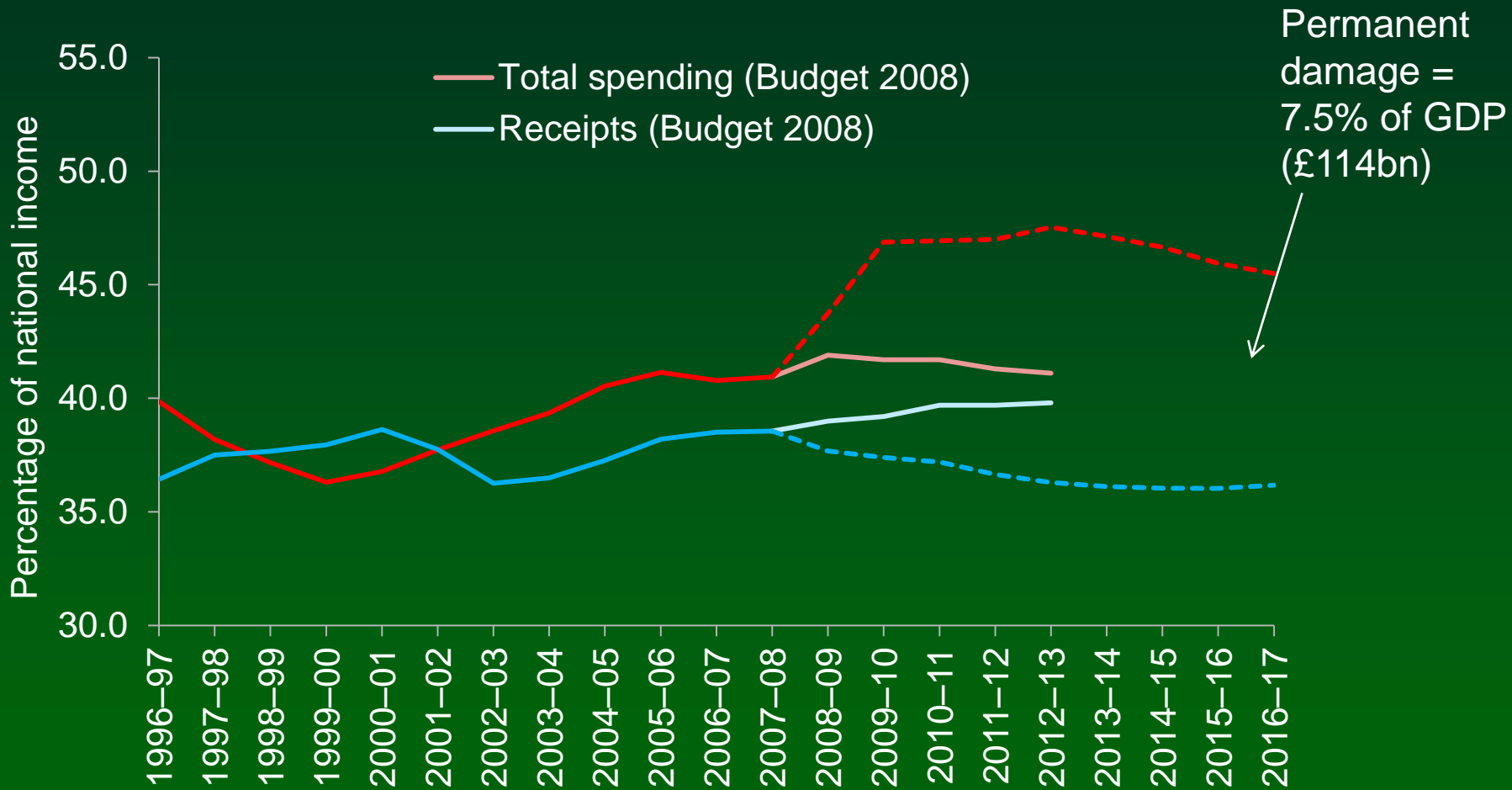
Paul Johnson



# Our fiscal future

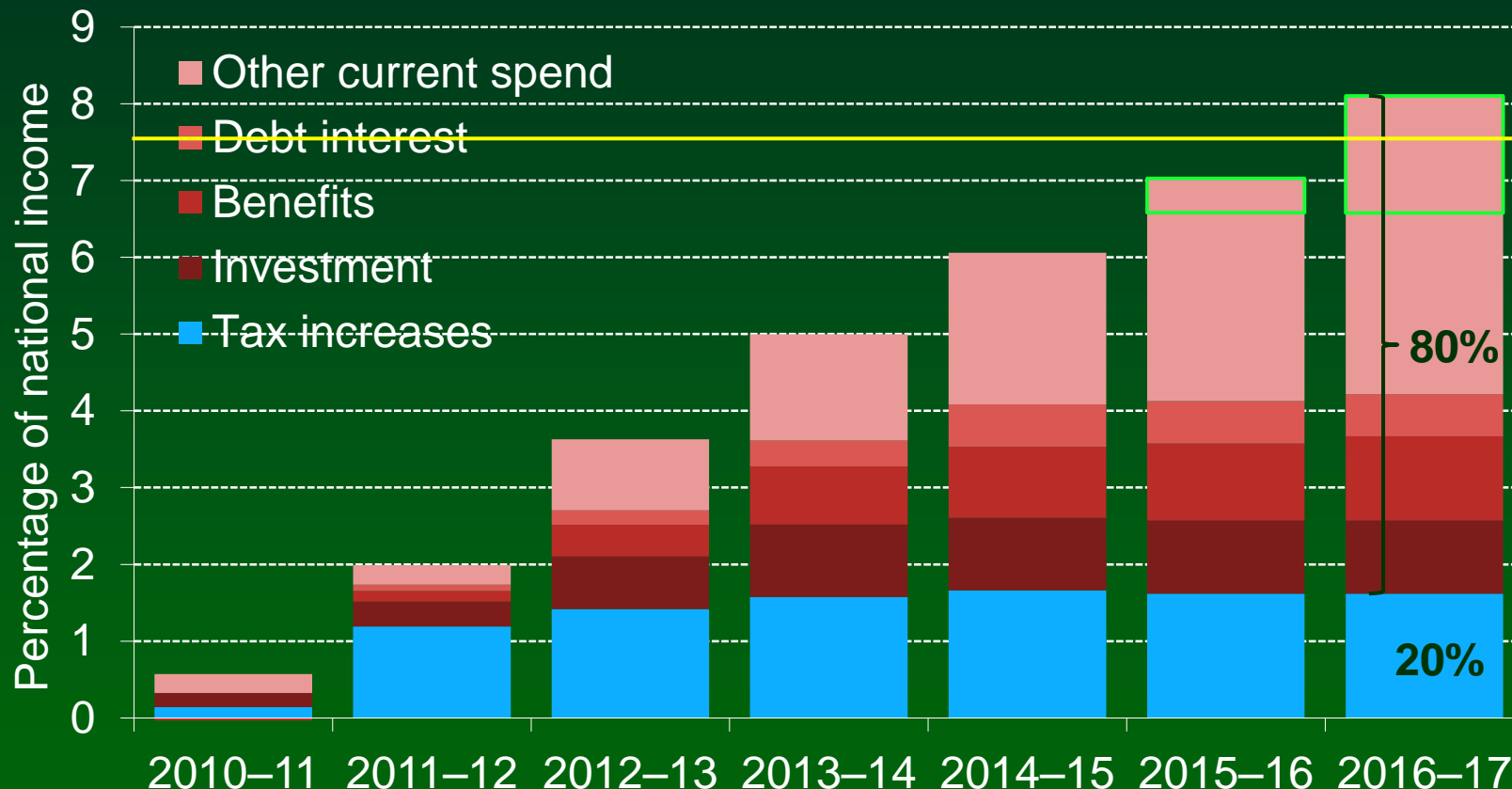
- The spending review period and medium term outlook
- The long term outlook

# The hole in the public finances

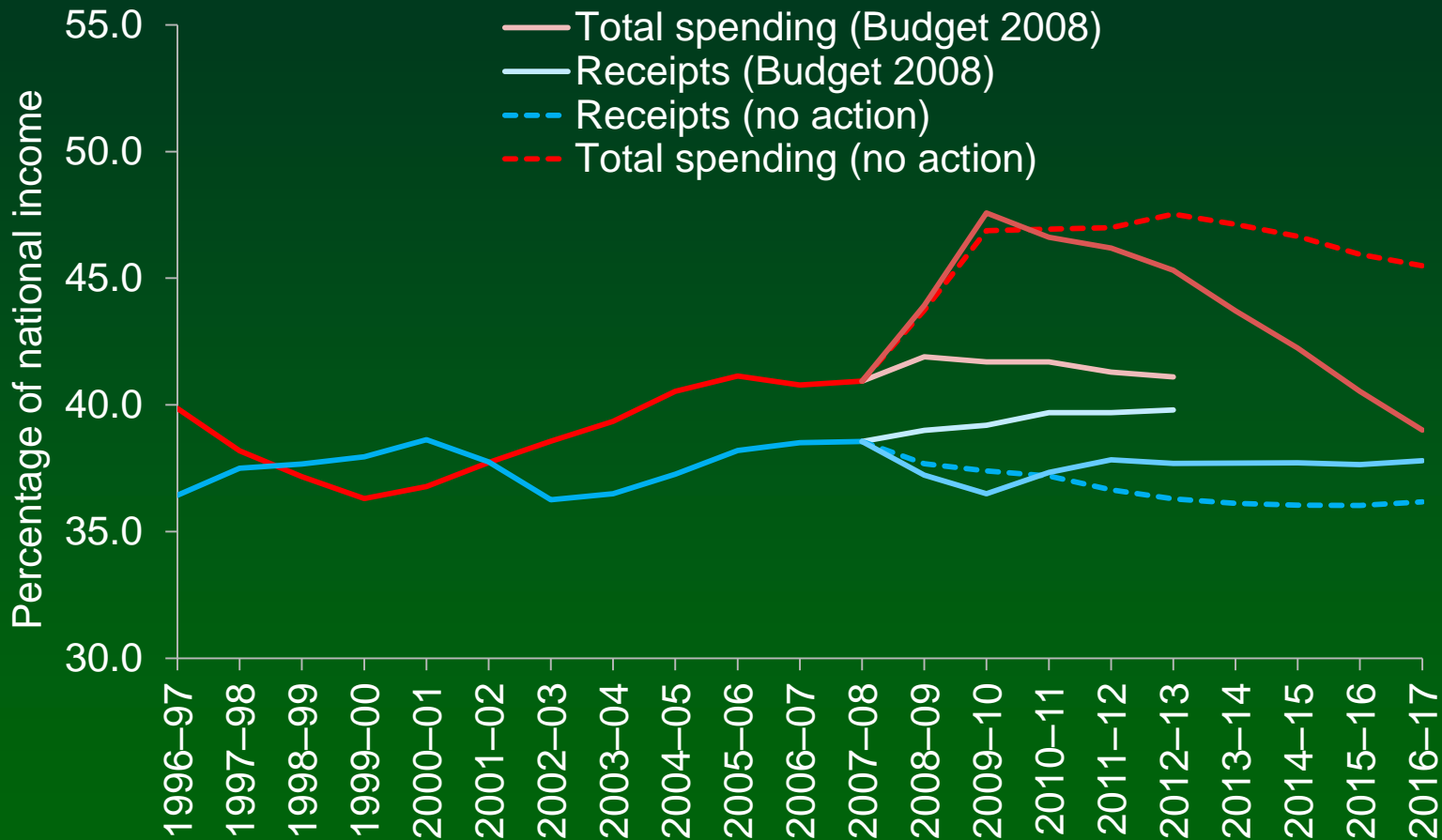


# The cure (November 2011): 8.1% national income consolidation over 7 years

**Nov 2011:** 7.5% national income (£114bn) hole in public finances

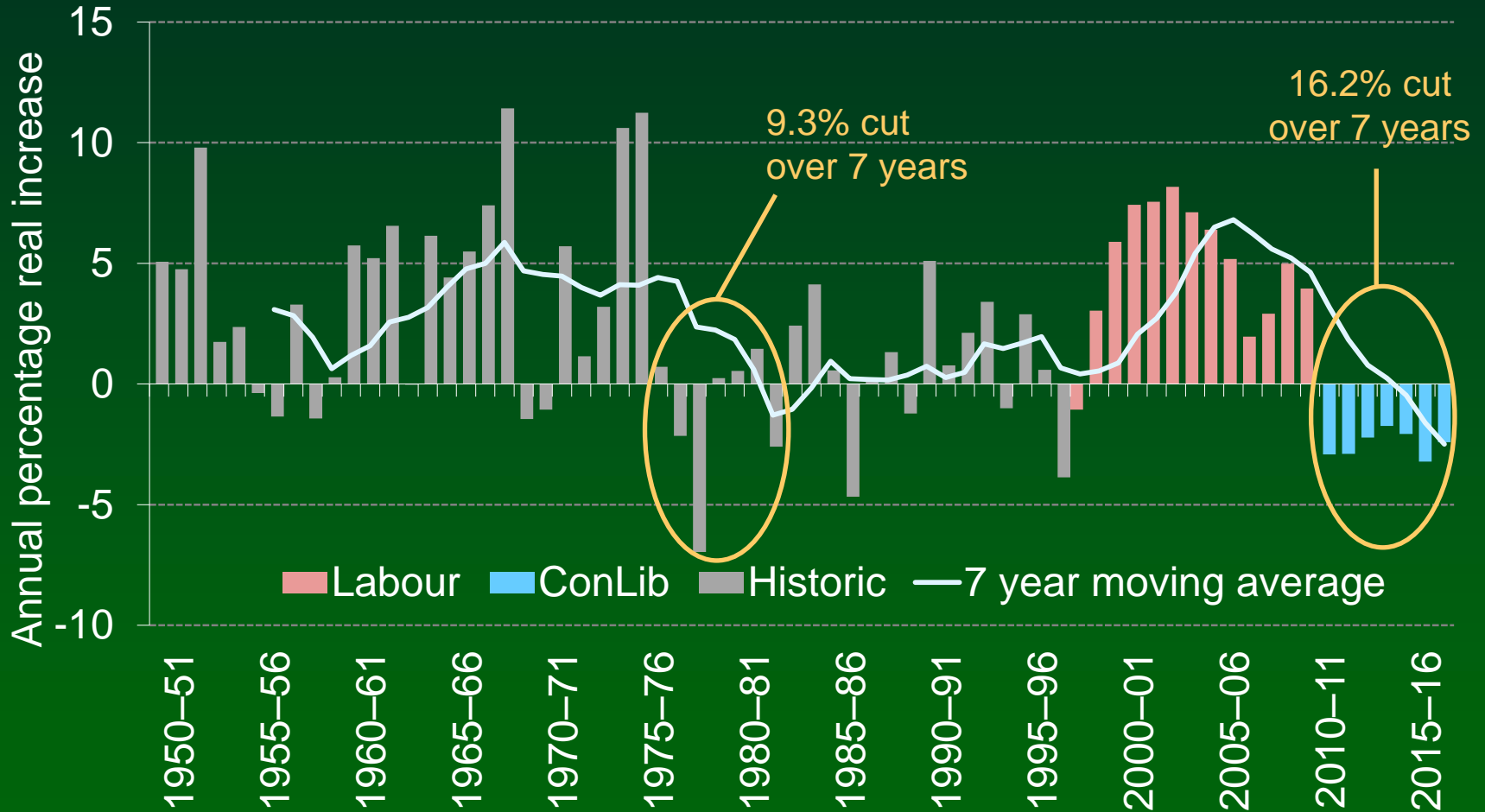


# Spending and revenues brought back to pre-crisis levels

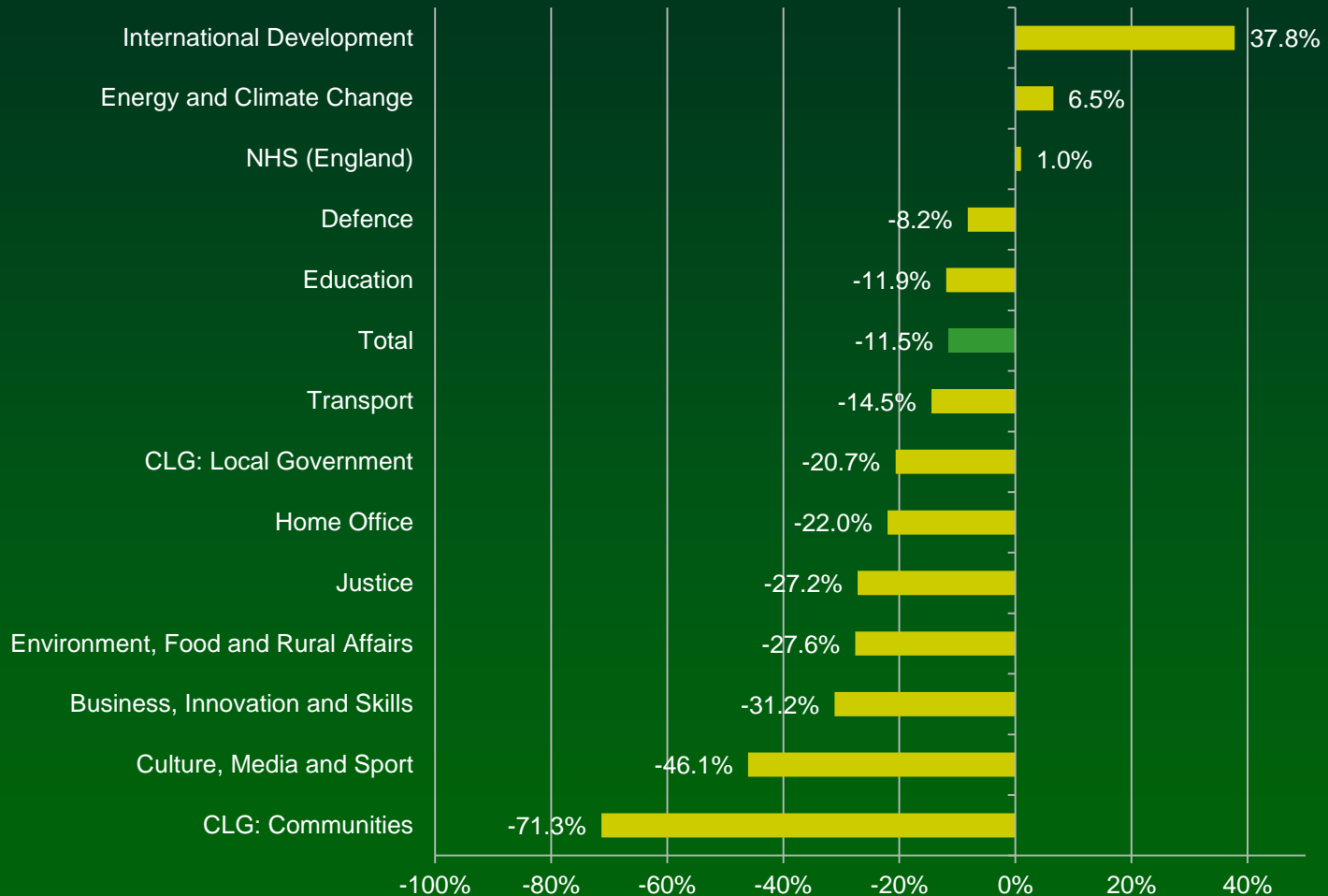


7-year

# ~~6-year~~ squeeze on public service spending



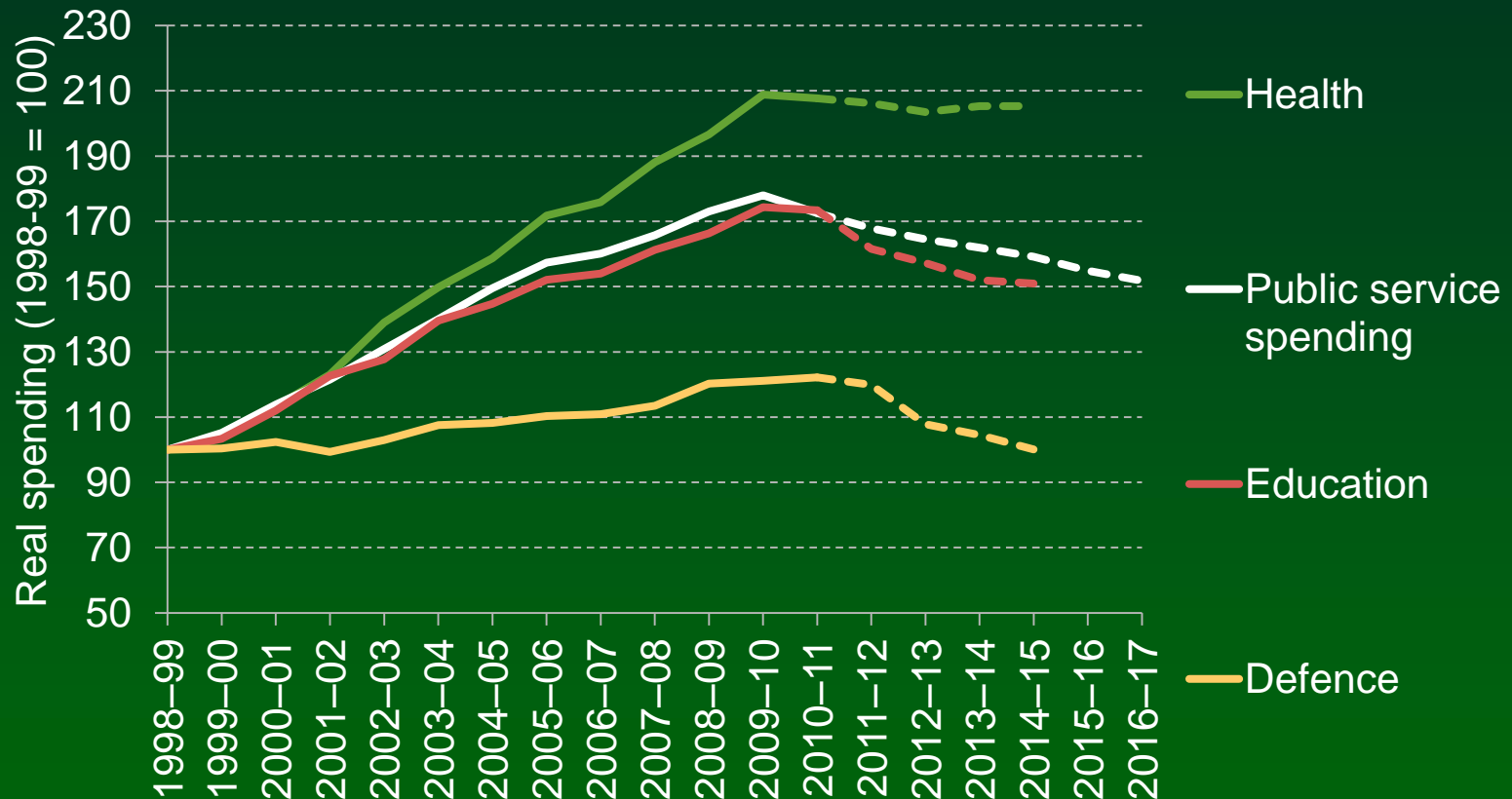
# Pattern of DEL changes 2010-11 to 2014-15



Percentage real increase, 2010-11 to 2014-15

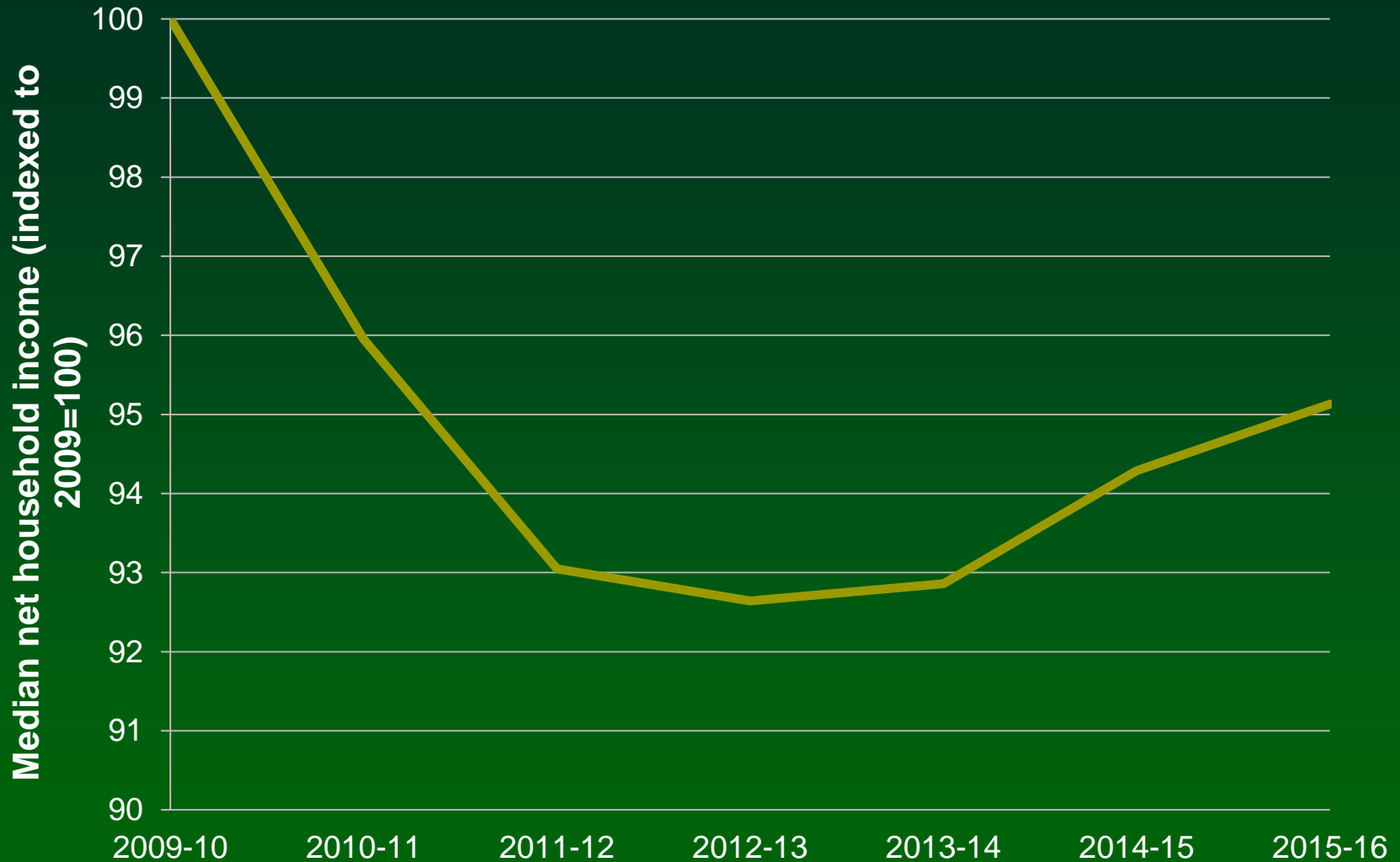


# Similar priorities (in different directions)





# Household incomes falling to unprecedented degree

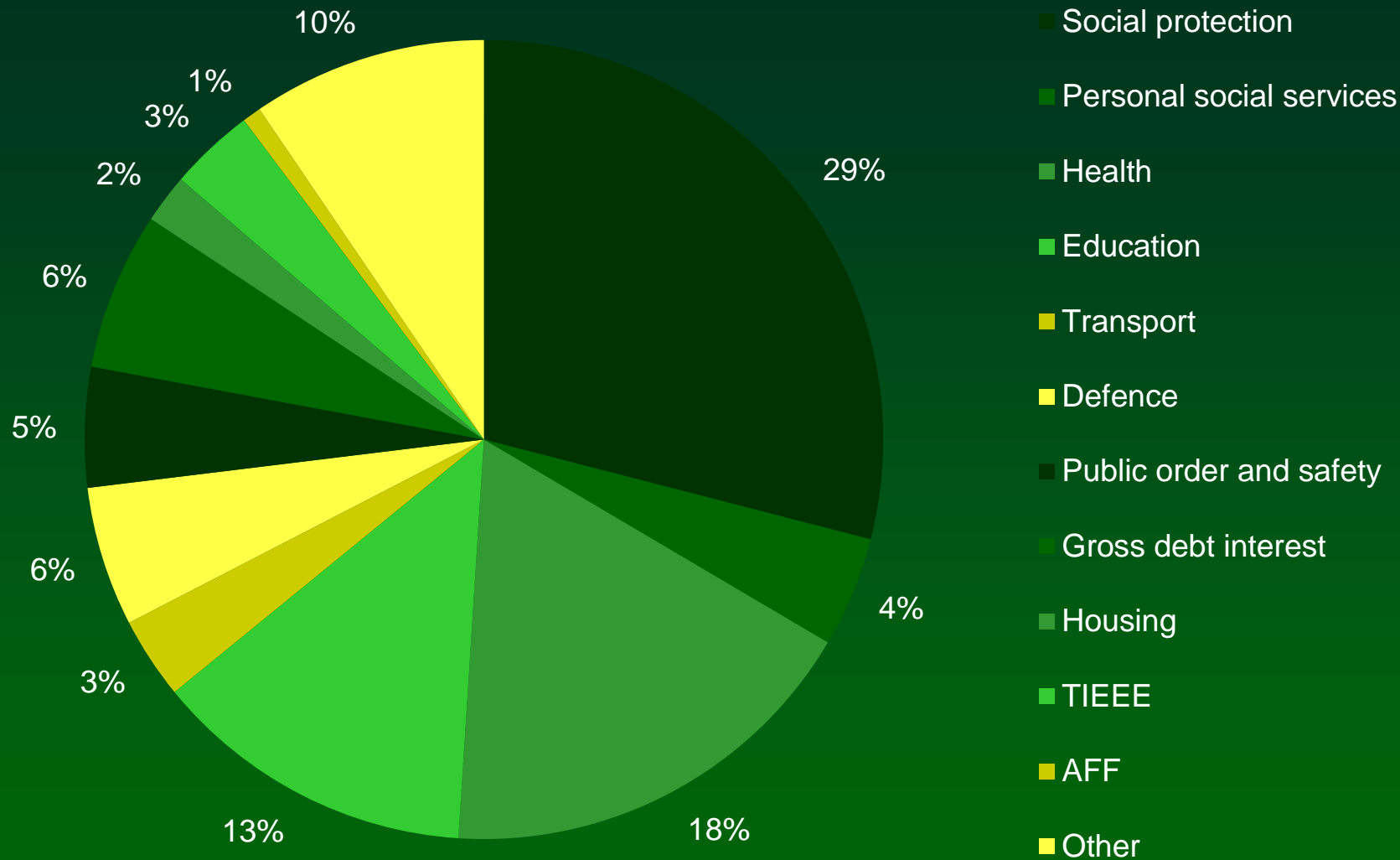


Sources: Department for Work and Pensions' HBAI series; IFS calculations and projections using Family Resources Survey.

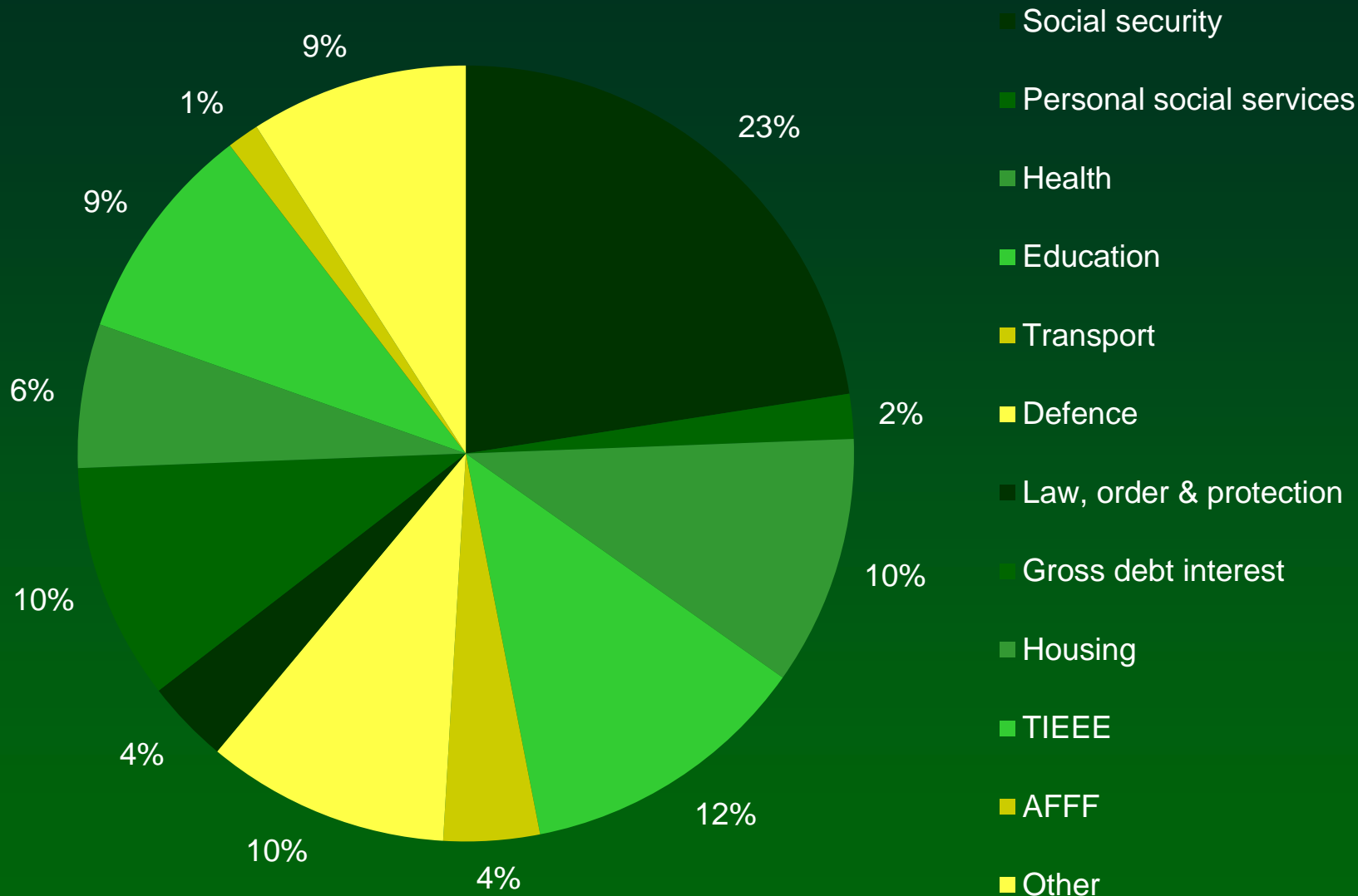
# Continuing change in the shape of the state

- Health, social protection and education account for two thirds of public spending
- Up from less than half in 1979
- Increase results from health and social protection
  - Education has merely maintained its share
- Defence, housing and support for business and industry have taken the strain

# Public spending in 2010-11



# Public spending in 1978-79



# Going forward state is set to change further

- Demographics will drive further change
- OBR projections suggest that health and pensions alone could account for more than a half of non-interest spending by 2060

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- And there are additional pressures on tax receipts
  - Notably on petrol and from north sea oil
  - Perhaps from corporation tax

# This creates some major pressures

- At least another £100 billion in tax rises or spending cuts will need to be found over a – relatively long – period from 2020
- Three core drivers:
  - Demographics
  - Structure of spending commitments
  - Stability of tax base

# This creates some major pressures

- At least another £100 billion in tax rises or spending cuts will need to be found over a – relatively long – period from 2020
- Three core drivers:
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  - Structure of spending commitments
  - Stability of tax base
- There are only three choices:
  - Increase total taxes to accommodate pressures
  - Reform and rein in health and pension spending
  - Cut other areas of spending





# Conclusions

- £114 billion hole in public finances
- Planned fiscal consolidation: 8.1% of national income
  - Most of the spending cuts are still to come
- Long term squeeze on household incomes
  - Real increases in energy prices a big issue for those on low incomes
- The longer term outlook is daunting too
  - Continued move to the “welfare state” offers challenges
  - Main sources of “environmental” taxation are falling