



# Institute for Fiscal Studies



The challenge of fiscal sustainability

Paul Johnson

November 3 2011

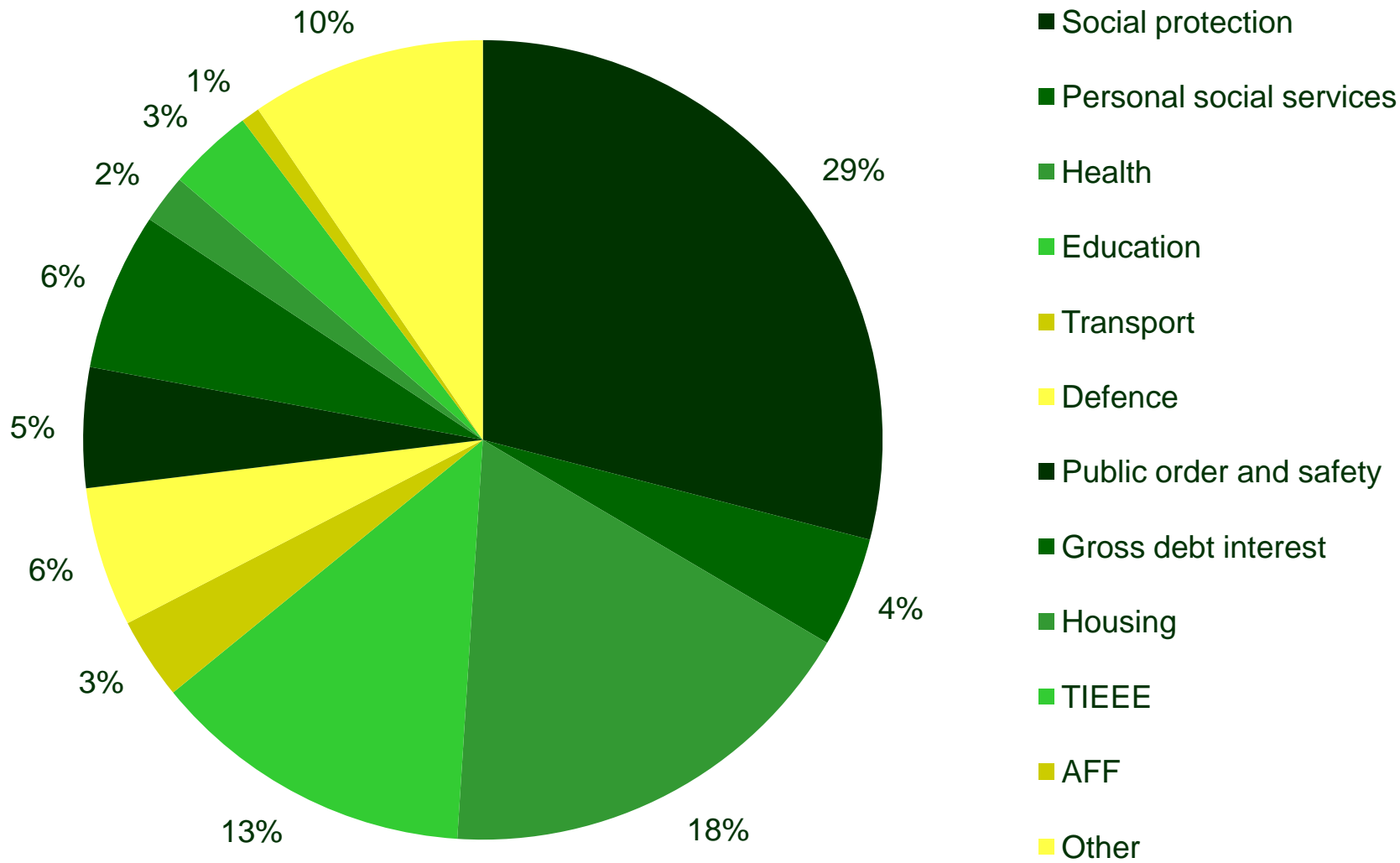
# Outline

- How the pattern of spending has changed over time
- The current squeeze
- Long term debt position
- Changes in spending over the next few years
- Longer term projections

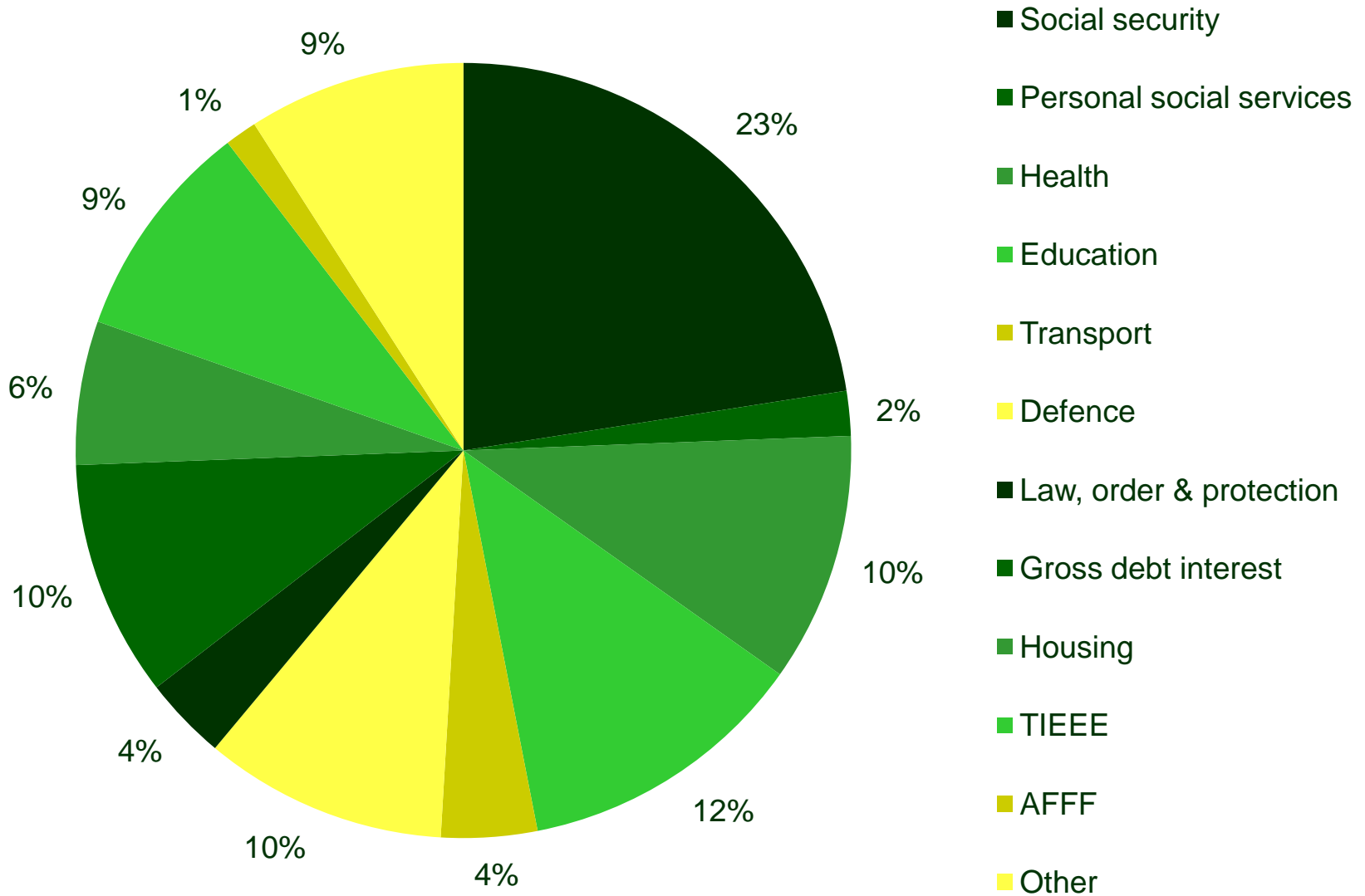
# Continuing change in the shape of the state

- 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



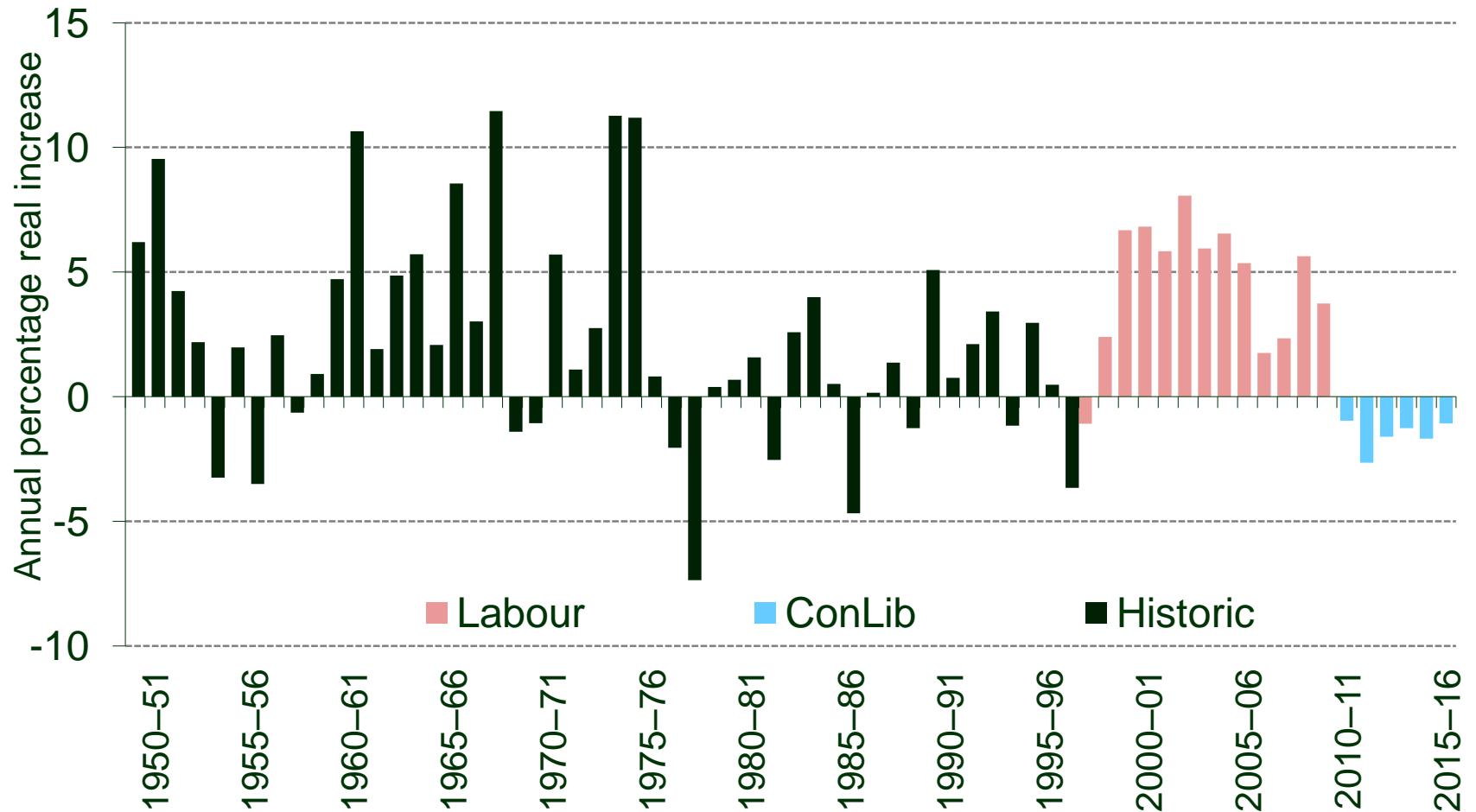
# Public spending in 1978-79



# Over the next few years

- An unprecedented squeeze on public service spending

# Public service squeeze biggest in over 50 years



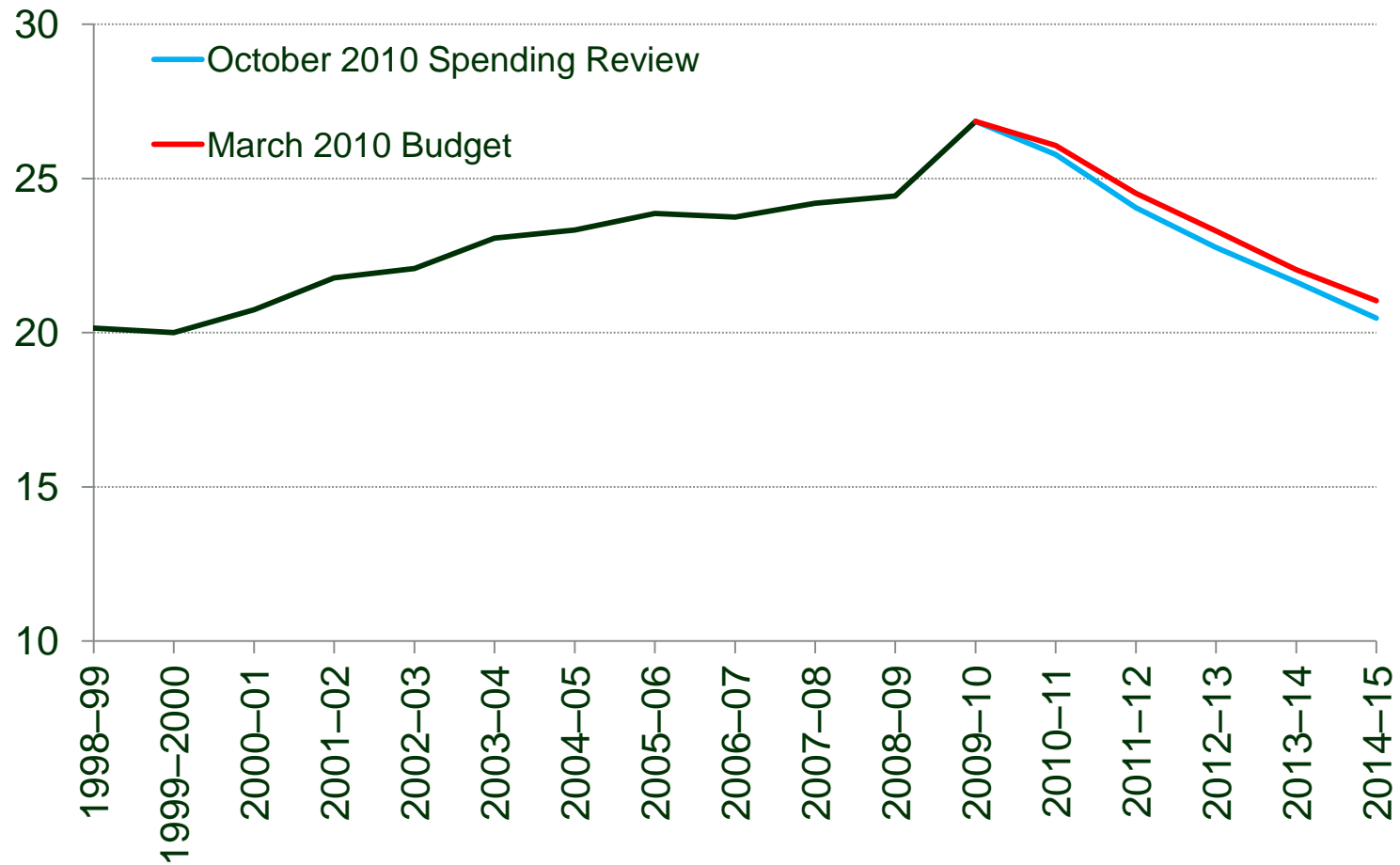
Note: Figure shows total public spending less spending on welfare benefits and debt interest.

# Over the next few years

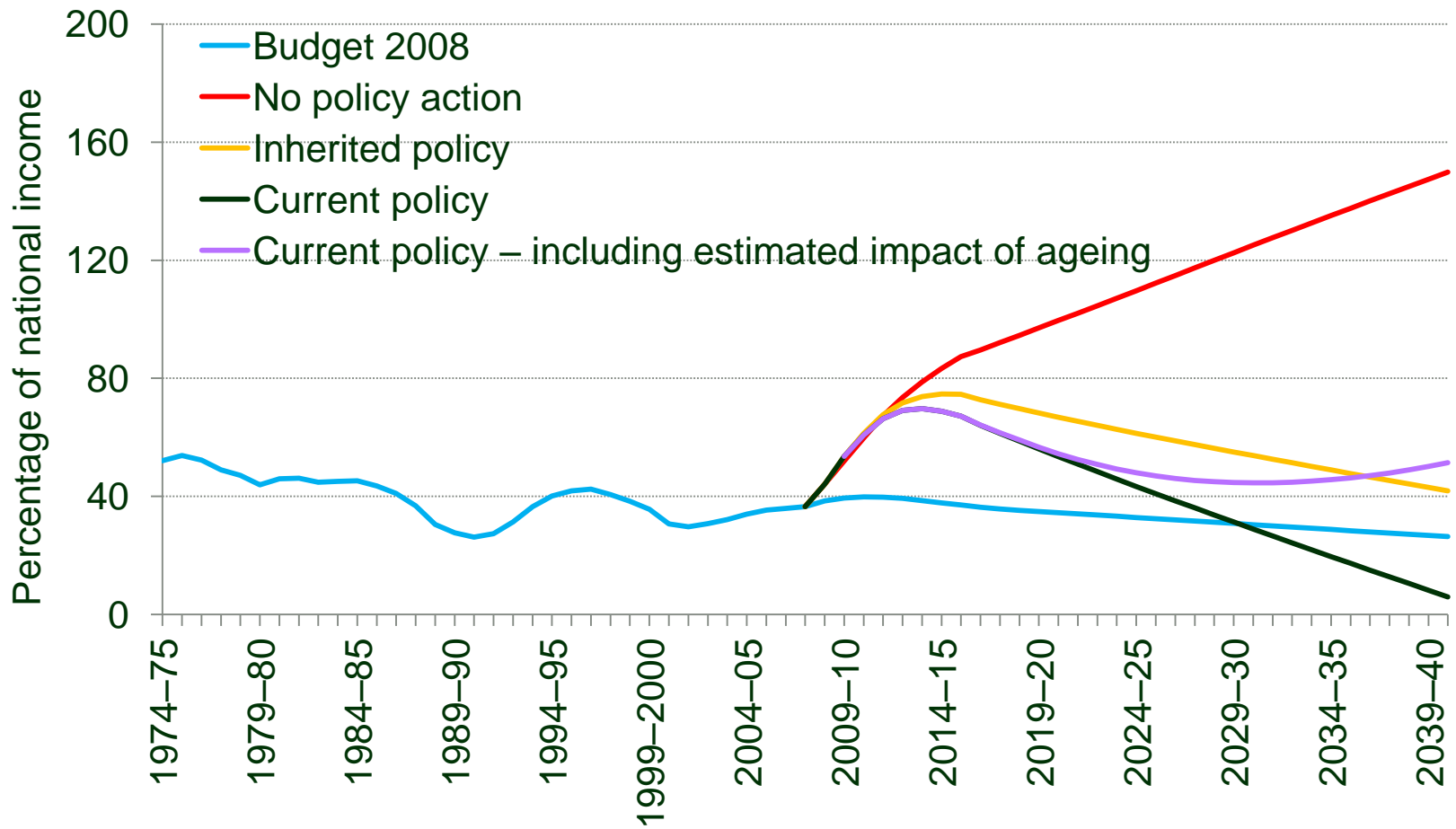
- An unprecedented squeeze on public service spending
- Returning it to 2000 levels as a percentage of GDP



# Taking us back to 2000 levels as % of GDP



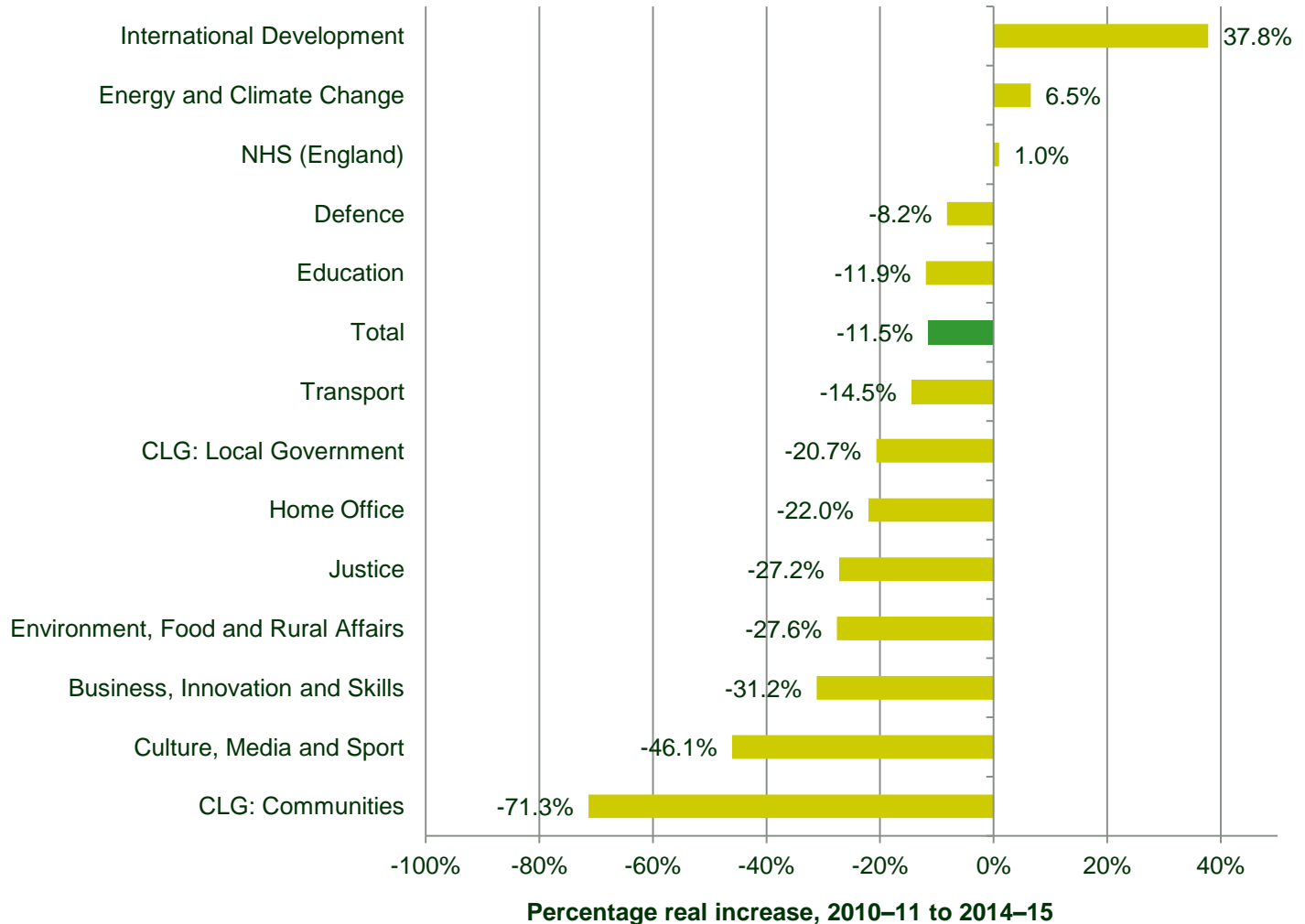
## But debt not back to pre-crisis levels for a generation



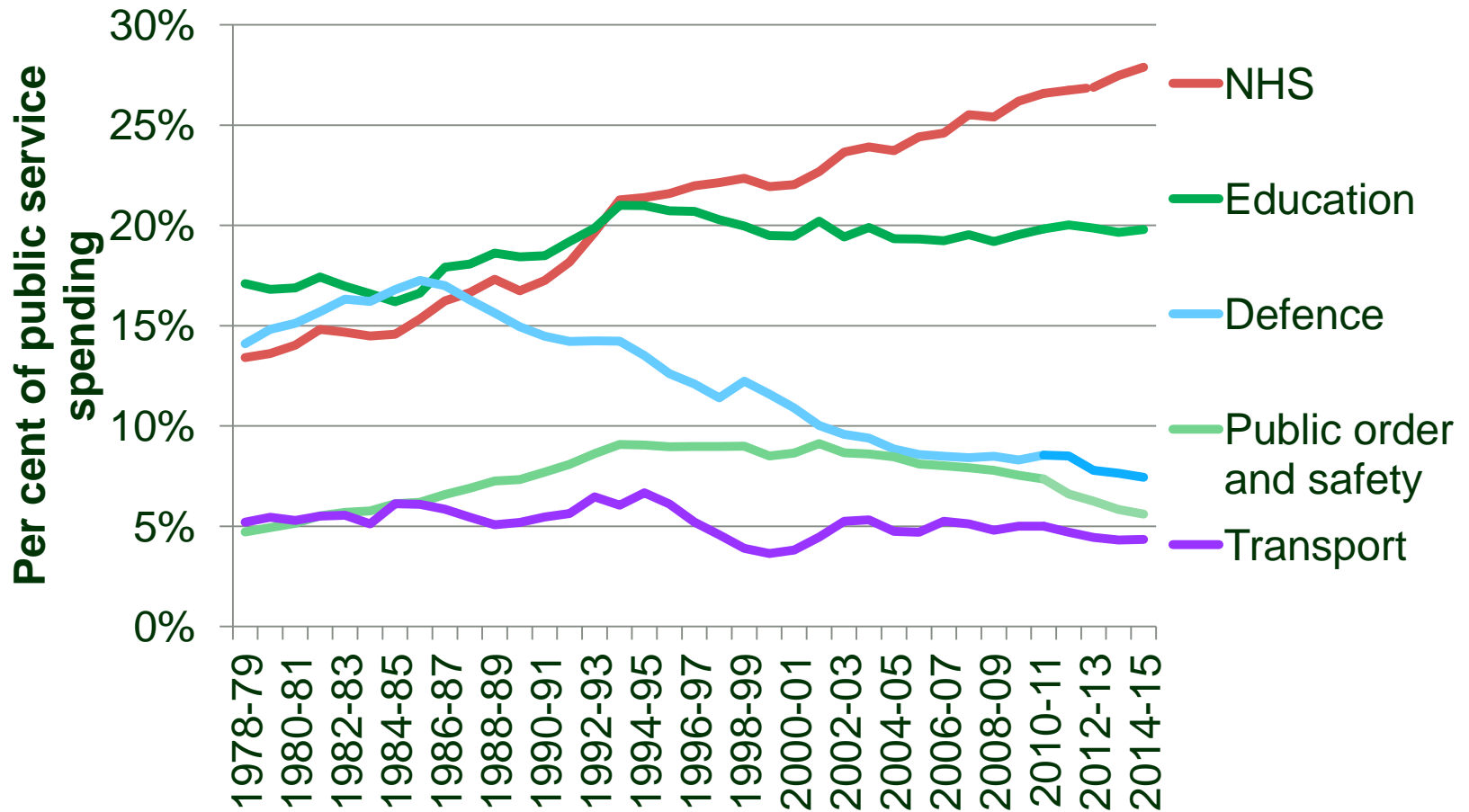
# Over the next few years

- An unprecedented squeeze on public service spending
- Returning it to 2000 levels as a percentage of GDP
- With different departments affected differently
  - And health again relatively protected
  - And its share of spending continuing to rise

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



# No change in 'priorities'



# OBR projections going forward

- Based just on demographic change
- Otherwise central forecasts assume health spending rises just with GDP
  - 2% a year





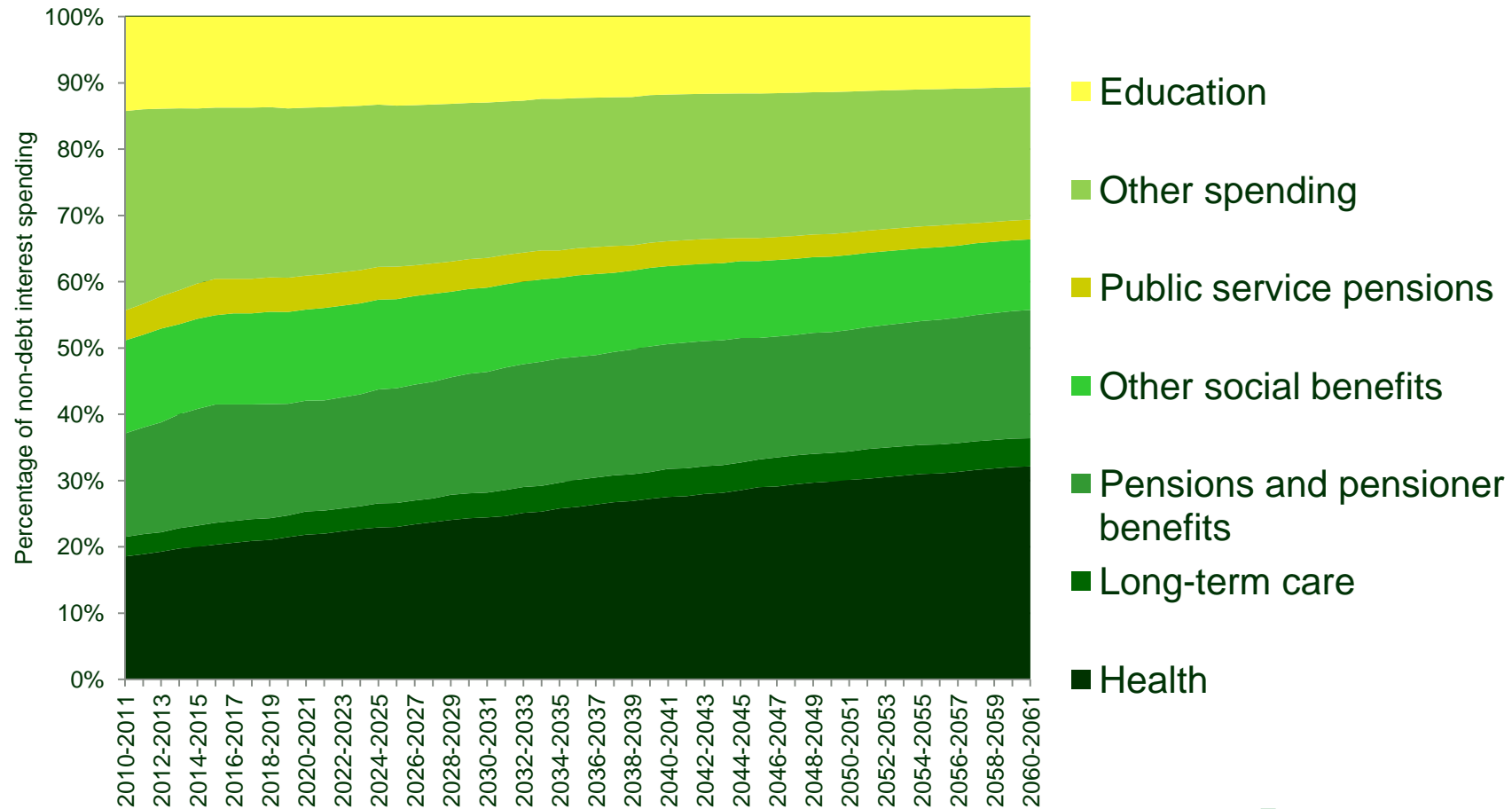




## And if health spending grows 1% p.a. over GDP

<i>% of non-interest spending</i>	2010–11	2060–61
Education	14.3	10.6
Long term care	2.9	4.2
Public service pensions	4.5	3.0
Other social benefits	14.0	10.6
Pensions and pensioner benefits	15.6	19.3
Health	18.6	32.1
Other non interest spending	30.1	20.0

# OBR projections of spending to 2060

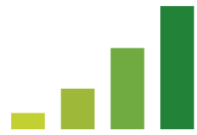


# Going forward state is set to change further

- OBR projections suggest that health and pensions alone could account for more than a half of non-interest spending by 2060
- On these assumptions education spending falls from 14% to 11% of the total
- Unless
  - Total spending increases
  - Other spending falls even more sharply
  - Health spending is reformed and reined in

# Conclusions

- The shape of public spending changes over time
- Last 30 years have seen health and social protection spending increase a lot
- Defence, “economic” spending and housing have taken a big hit
- Going forward there are continued pressures on health and other age related spending
- If accommodated the shape of the state will alter beyond recognition
  - And if it is not also to increase in size we’ll need to find some new losers



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