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UK public finances: two parliaments of pain

Carl Emmerson

Institute for Fiscal Studies (www.ifs.org.uk)

Presentation to: CBI conference “Local strategic commissioning”, 14th July 2009

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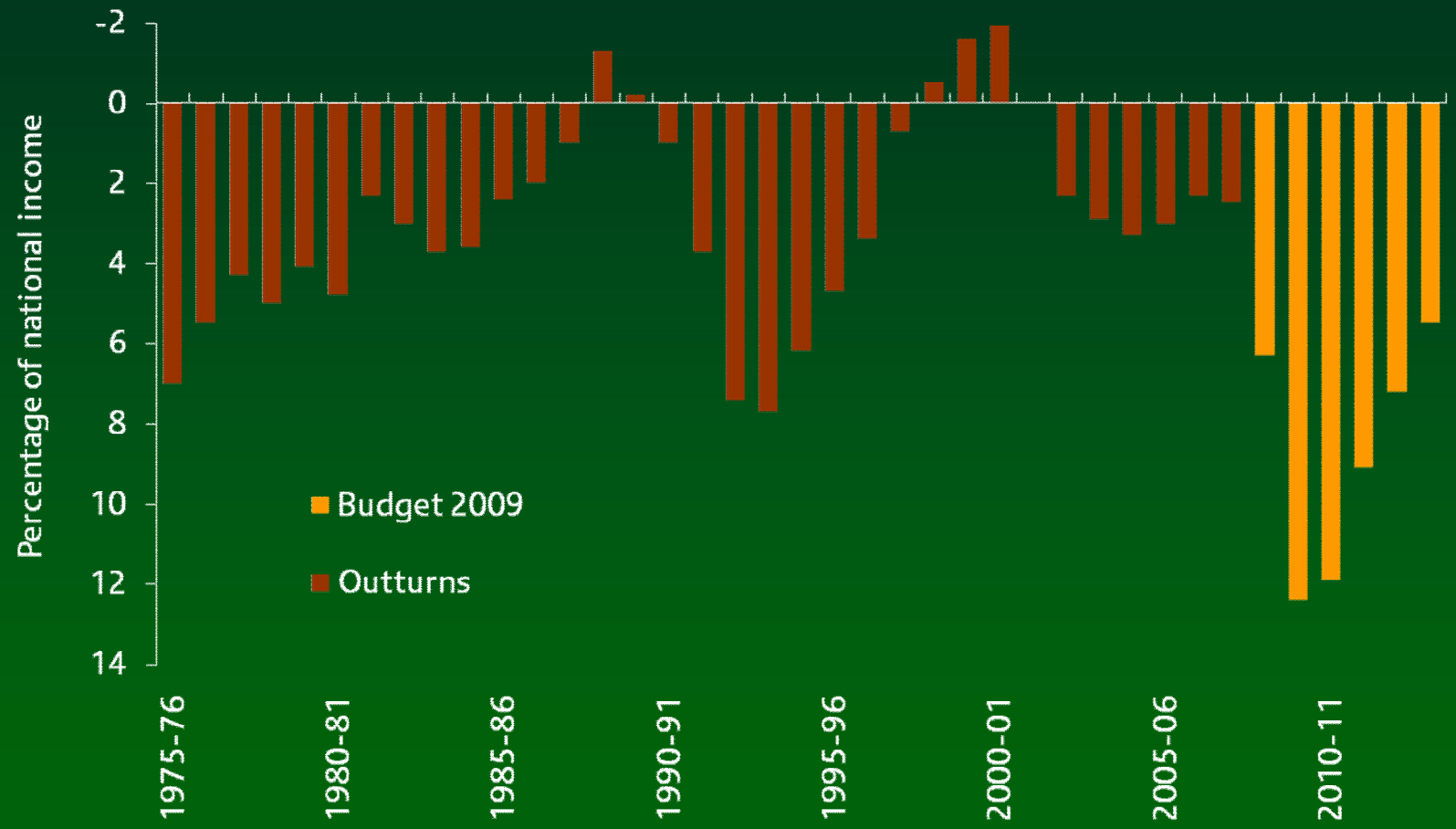
Public sector borrowing to hit post-war peak



Note: Excludes unrealised losses on financial interventions.
Source: HM Treasury.

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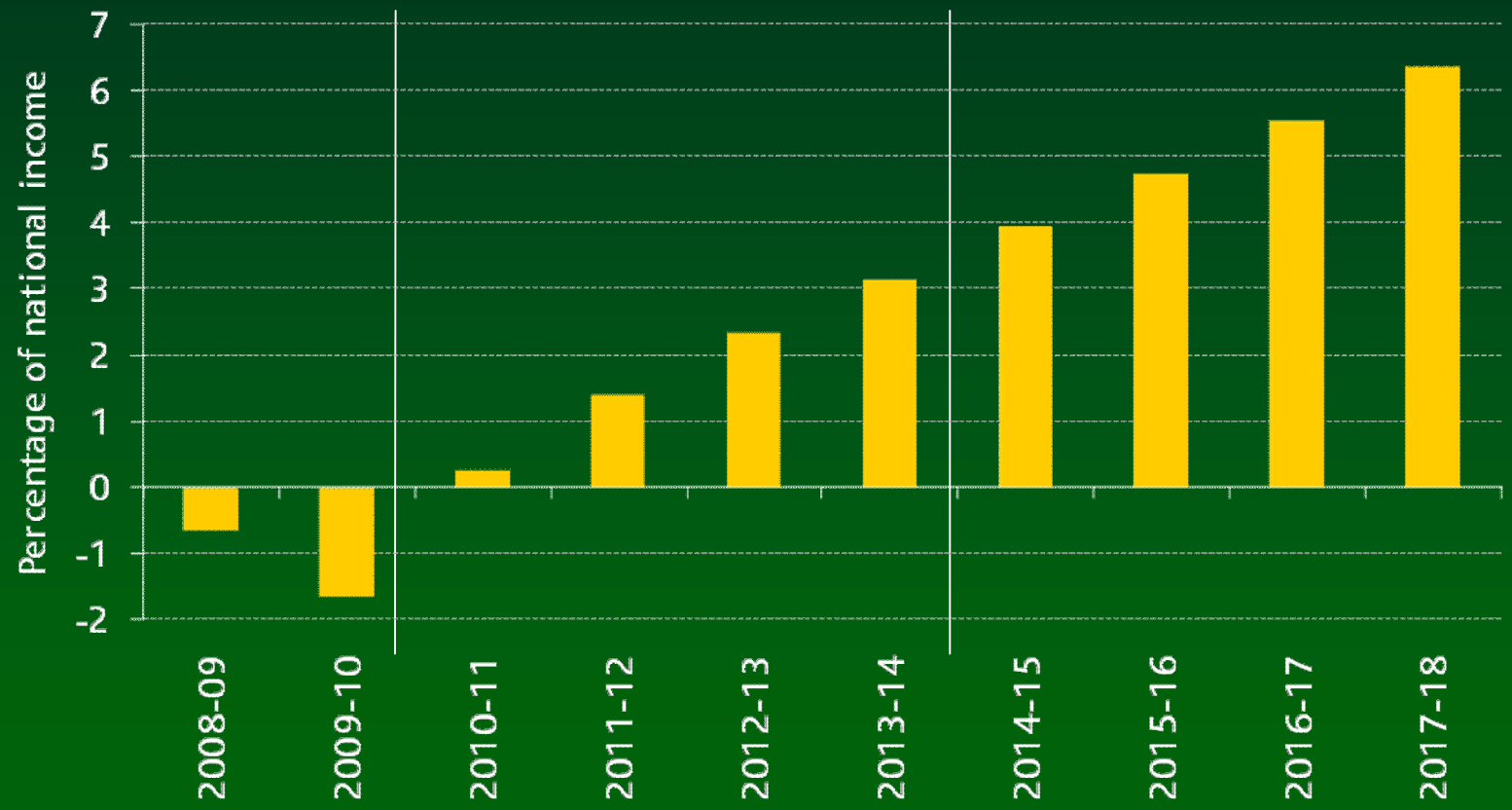
Fiscal tightening: two parliaments of pain

Total giveaway/takeaway from PBR2008 & Budget 2009, by year



Sources: HM Treasury; IFS calculations.

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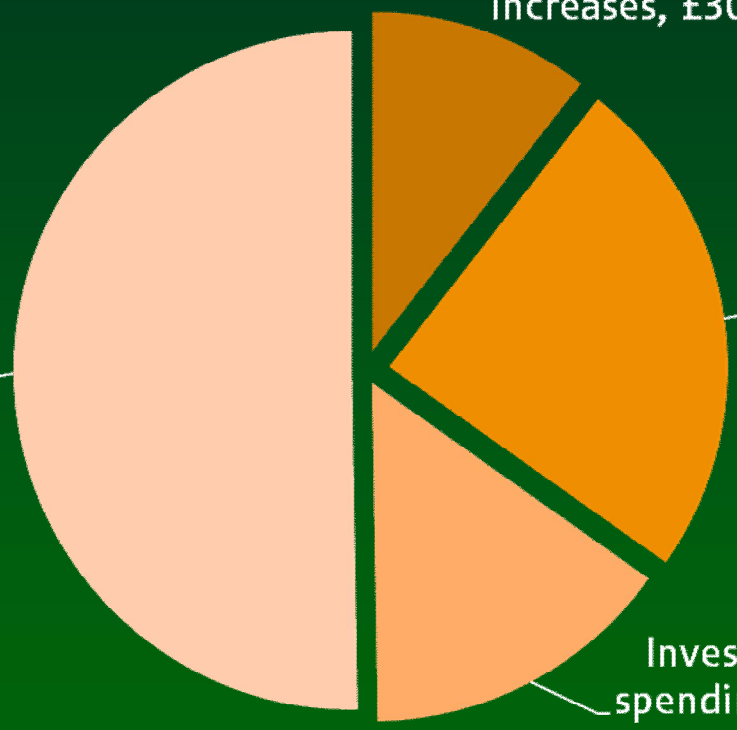
Eventual cost of fiscal tightening per family

Total cost:
£90 billion a year in today's money or £2,840 per family by 2017–18



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Spending plans in Budget 2009: April 2011 to March 2014

- Budget 2009 plans
  - current spending: to grow at 0.7% a year in real terms
  - investment spending: “move to 1¼ per cent of GDP in 2013–14”
    - real cuts of 17.3% a year
  - total spending: to be cut by 0.1% a year in real terms
    - lowest 3-year growth since: April 1996 to March 1999

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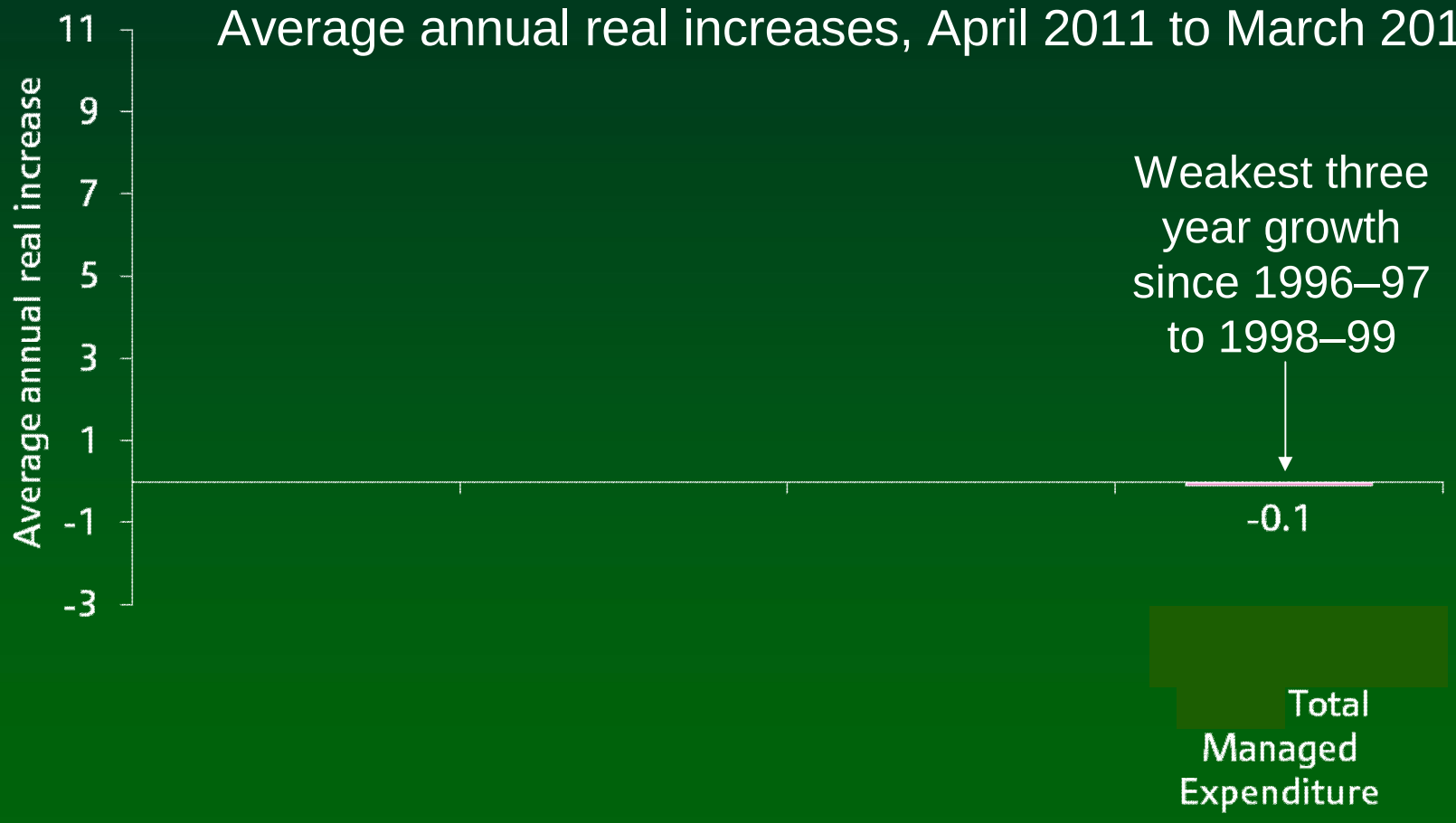
A possible Spending Review 2010 allocation

Average annual real increases, April 2011 to March 2014



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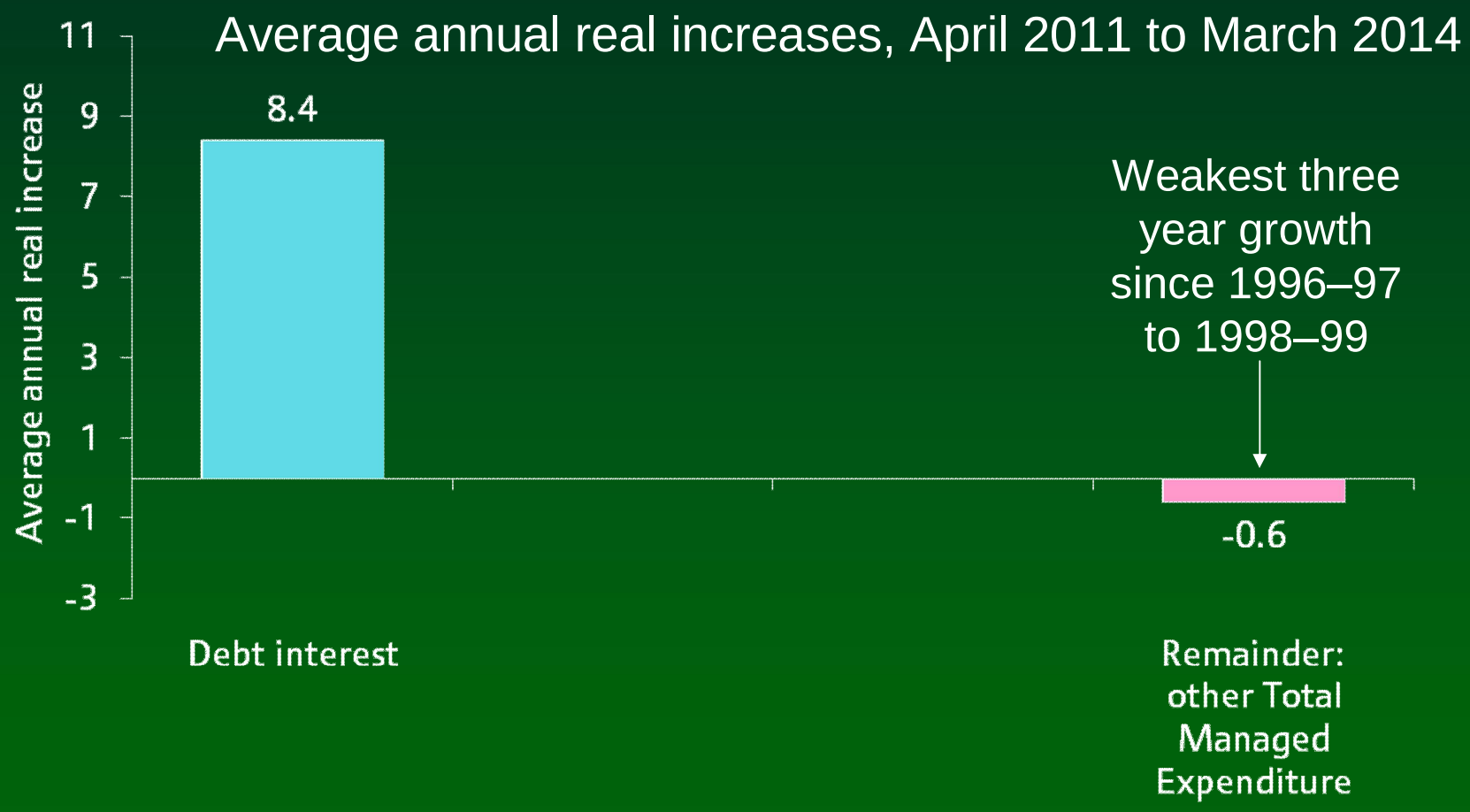
Sources: HM Treasury; IFS calculations.

A possible Spending Review 2010 allocation



Sources: HM Treasury; IFS calculations.

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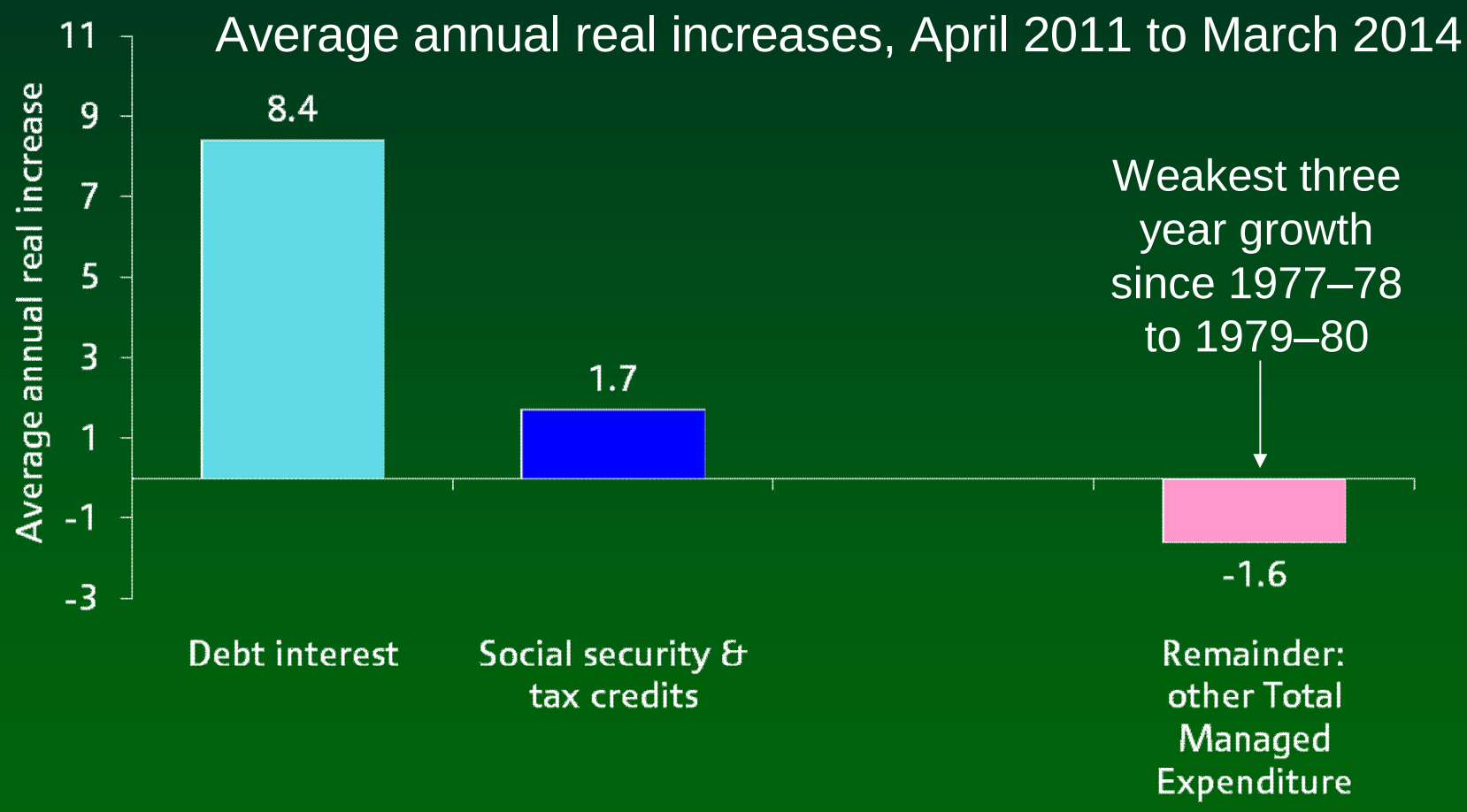
A possible Spending Review 2010 allocation



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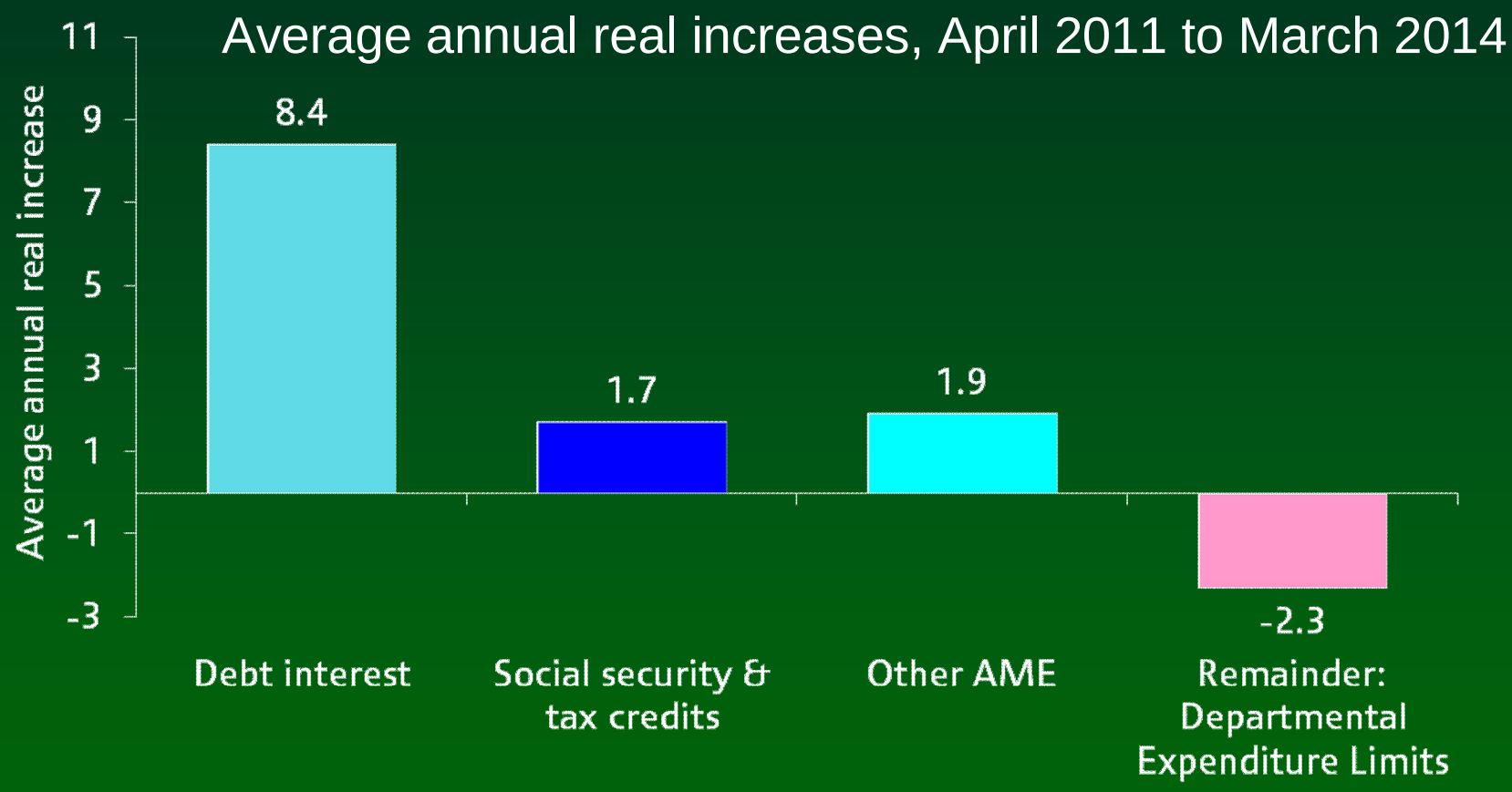
A possible Spending Review 2010 allocation



Sources: HM Treasury; IFS calculations.

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Which departments might experience real cuts?

- Departmental spending growing by 2.7% a year real over CSR07
- Plausible scenario suggests 2.3% a year real cuts over SR10
- If pain shared equally then each area would see its real terms spending growth fall by 5ppt a year
  - Department for International Development would be only department seeing continued real growth

- Department for Children, Schools & Families and local government grants growing 3.3% a year real over CSR07
- Equal pain share would see real cuts of around 1½% a year over SR10
- Will council tax be allowed to take the strain?

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Summary

- Fiscal position has deteriorated dramatically since Budget 2008
- Fiscal tightening eliminates extra structural deficit after 8 years
- Tight spending environment for the three years from April 2011

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