The 2019 Spring Statement

Paul Johnson

12 March 2019

Briefing organised and hosted by:
All Party Parliamentary Group for Social Science and Policy
Worsening outlook for growth since October

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2019</th>
<th>2020</th>
<th>2021</th>
<th>2022</th>
</tr>
</thead>
<tbody>
<tr>
<td>OBR October 2018</td>
<td>1.3</td>
<td>1.6</td>
<td>1.4</td>
<td>1.4</td>
<td>1.5</td>
</tr>
</tbody>
</table>

Notes and sources: OBR; ONS; authors’ calculations.
Worsening outlook for growth since October

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2019</th>
<th>2020</th>
<th>2021</th>
<th>2022</th>
</tr>
</thead>
<tbody>
<tr>
<td>OBR October 2018</td>
<td>1.3</td>
<td>1.6</td>
<td>1.4</td>
<td>1.4</td>
<td>1.5</td>
</tr>
<tr>
<td>Bank of England:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>August 2018</td>
<td>1.6</td>
<td>1.8</td>
<td>1.7</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Notes and sources: OBR; ONS; authors’ calculations.
Worsening outlook for growth since October

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2019</th>
<th>2020</th>
<th>2021</th>
<th>2022</th>
</tr>
</thead>
<tbody>
<tr>
<td>OBR October 2018</td>
<td>1.3</td>
<td>1.6</td>
<td>1.4</td>
<td>1.4</td>
<td>1.5</td>
</tr>
<tr>
<td>Bank of England:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>August 2018</td>
<td>1.6</td>
<td>1.8</td>
<td>1.7</td>
<td></td>
<td></td>
</tr>
<tr>
<td>November 2018</td>
<td>1.3</td>
<td>1.7</td>
<td>1.7</td>
<td>1.7</td>
<td></td>
</tr>
<tr>
<td>February 2019</td>
<td>1.4</td>
<td>1.2</td>
<td>1.5</td>
<td>1.9</td>
<td></td>
</tr>
</tbody>
</table>

A downgrade of 0.5% from one year’s growth reduces expected GDP by about £10bn and would add about £5bn to the forecast deficit.

Notes and sources: OBR; ONS; authors’ calculations.
Low business investment depressing growth but helping public finances
Spending growth outstripping income growth
Successive forecasts for the deficit in 2018–19

Notes and sources: OBR; ONS; authors’ calculations.
Changes to student loan accounting this summer will push up headline deficit

Change in accounting rules could (and should) lead to the Chancellor reconsidering his fiscal targets

Debt high but interest payments not

Notes and sources: Figure 2c of Emmerson, Pope and Zaranko (2019).
The 2019 Spring Statement

Not likely to be a big event

- Expect borrowing numbers to improve
- Perhaps a little more money for priority areas
  - Social care?
  - Prisons?
  - Police?
- Review of fiscal rules?
Don’t forget what’s happening anyway

Fourth and final benefits freeze in April

Personal allowance rises to £12,500, HRT to £50k

Various elements of income tax system frozen again
  – £50k child benefit limit
  – £100k point at which personal allowance withdrawn
  – £150k point where 45p rate kicks in

Mortgage interest relief continues to become less generous for landlords

Another £25k increase in main residence allowance for IHT

And, of course, fuel duty frozen again
The 2019 Spending Review

Much we don’t yet know

• What years will be covered?
• What spending will be in scope?
• What will the spending envelope be?

Could announce these in the Spring Statement, or at a later point before the summer

• Final Spending Review allocations to follow in the Autumn Budget?
Notes and sources: Figure 4 of Emmerson, Pope and Zaranko (2019).
Real departmental budget changes, 2010−11 to 2019−20

- Justice: -42%
- DEFRA: -35%
- Home Office: -28%
- Culture: -16%
- Transport: -16%
- Education: -13%
- Defence: -11%
- Health and Social Care: 17%
- International Development: 36%
Real departmental budget changes, 2010–11 to 2019–20

International Development: +36%
Health and Social Care: +17%
Defence: -11%
Education: -13%
Transport: -16%
Culture: -16%
Home Office: -28%
DEFRA: -35%
Justice: -42%

Local government spending down c. 20%
Forecast change in day-to-day public service spending

Indexed values (2009–10 = 100)

Real RDEL

Real RDEL per capita

RDEL as % national income

Notes and sources: Figure 8 of Emmerson, Pope and Zaranko (2019).
Several spending commitments will constrain Spending Review

- NHS: day-to-day budget of NHS England to increase by £20.5 billion between 2018–19 and 2023–24
- Defence: commitment to continue to spend at least 2% of GDP
- Overseas aid: commitment to continue to spend 0.7% of GNI

Over half (£156 bn) of day-to-day departmental spending protected

- Spending Review could largely be about just one-fifth of spending
- So current spending plans imply cuts to unprotected areas
Forecast change in ‘unprotected’ day-to-day public service spending

Indexed values (2009–10 = 100)

- Real ‘unprotected’ RDEL
- Real ‘unprotected’ RDEL per capita
- Real ‘unprotected’ RDEL as % national income

Notes and sources: Figure 10 of Emmerson, Pope and Zaranko (2019).
Fiscal policy and Brexit

Over the longer-term GDP most likely lower, and the underlying public finances weaker, as a result of Brexit

- Eventually necessitating a combination of tax rises and spending cuts

But an economically bad Brexit might not mean a tighter SR2019

If there is a hit to demand that is greater than the hit to supply:

- Almost certainly allow automatic stabilisers to operate
- Given already low interest rates, case for active temporary fiscal stimulus to boost consumer spending and business investment
The 2019 Spring Statement

Paul Johnson

7 March 2019