



Perspectives by Ruth Lea

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Public expenditure trends since 1997: feast for some but famine for others



The huge expansion of state spending and the general mismanagement of the public finances have been discussed in previous Perspectives.^{1, 2}

But it is worth recapping the main developments over the past decade as background to this Perspective. The state spending taps were turned on in FY2000 (financial year 2000, 2000/2001) after a couple of years of politically-imposed restraint. Over the decade FY1997 to FY2007, state spending rose in total by over 80% - an annual average increase of over 6% in current prices. This was well above the rate of growth in the whole economy and, as a consequence, the share of total spending to GDP has risen from less than 39% in FY1997 to around 42% currently.³ Even allowing for inflation, the annual average increase over this period was 3½ to 4%, again well above the average growth rate of real GDP.⁴

One aspect of public expenditure debate is the huge disparity in largesse of funding between the different spending programmes. The disparity is dramatic. For some Government Departments it has been a time of feast, but for others famine is a more appropriate description.

Departmental spending trends: FY1998 to FY2007

Charts 1a and 1b below show the increase in public spending for some key spending components between FY1998 and FY2007, in both current and constant prices, in terms of absolute increases (in £bn) and average annual % increases.^{5, 6} The background data are shown in annex table 2. The contrast between the departmental winners and losers in the public spending stakes is quite startling.

Firstly, looking at the “winners”: in absolute terms, social security benefits (including tax credits), have shown an absolute increase of over £60bn in current prices over this period. Over £15bn of the increase relates to former-Chancellor Brown’s introduction and fiscally-generous support for the tax credits system. At a time of low unemployment the overall increase in the social security budget is more than a little disappointing and, if there is a rapid build-up in unemployment over the next 12-18 months, the social security budget can only rise further – and more than planned. The current Government’s much vaunted policy objectives (energetically promoted on taking power in 1997) to reform the social security system, incentivise benefit recipients and reduce benefit dependency have failed.

In terms of average annual increases, health spending (and the data quoted here exclude spending by the devolved authorities and almost entirely relate to NHS expenditure in England) is, however, the winner. The Wanless report, published at the same time as the 2002 Budget, hugely boosted the spending on an unreformed and bureaucratic health service.⁷ Spending in current prices has more than doubled over this period but, because of falling productivity, output has increased less than spending.⁸ The annual average increase in constant prices has been nearly 7%, a huge increase in resources by any standard and completely unsustainable. The notion of solving the problems of Britain’s healthcare provision by “throwing money at the problem” has been tested to destruction.

Education has also been another major beneficiary over the period with an overall, absolute, rise of nearly £38bn (for the whole of the UK). In current prices the spending has effectively doubled. “Law and Order” has also benefited reflecting the higher spending on the police and asylum. And the international development budget has soared reflecting the former-Chancellor’s ambition, completely unrealisable, of “making (global) poverty history”.

Compared with the financial generosity showered on social security and “schools and hospitals”, spending on defence has been miserly. And this is despite Britain’s armed forces being involved in two major military international engagements. Spending in constant prices has been barely maintained. Defence is the undisputed “loser”.

Chart 1a: Departmental spending trends, FY1998 to FY2007, absolute increases, £bn

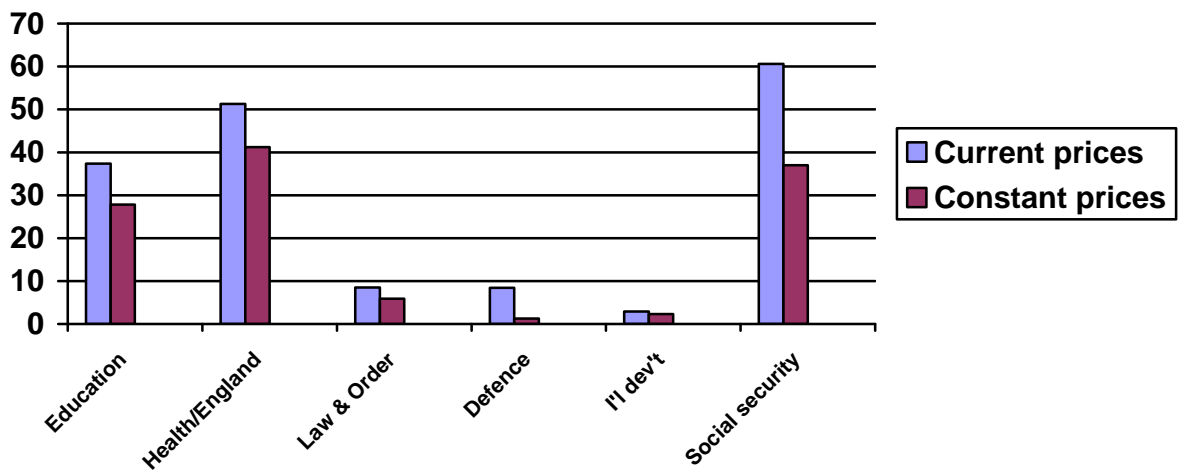
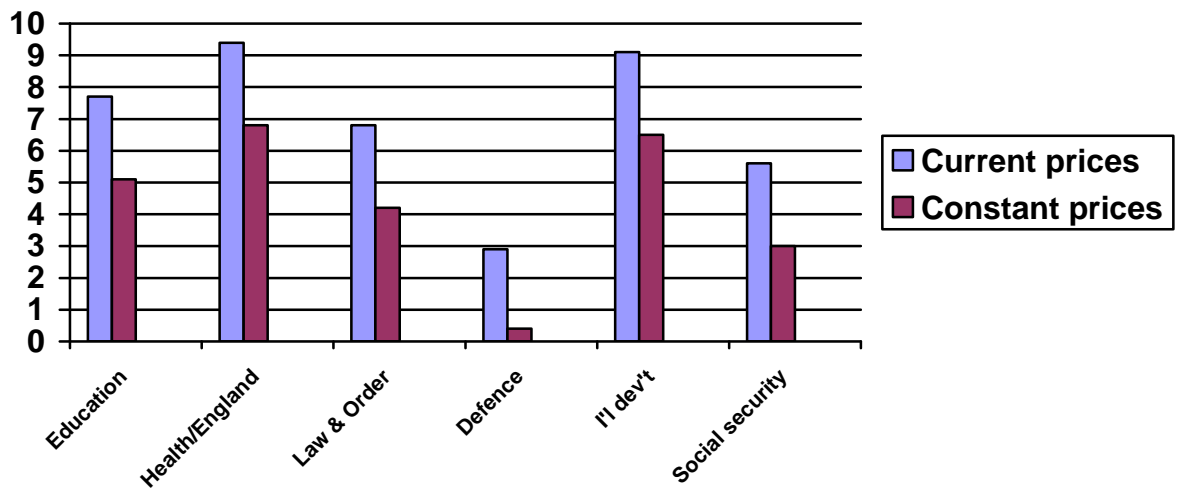


Chart 1b: Departmental spending trends, FY1998 to FY2007, average annual increases (%)



Departmental spending trends: FY2007 to FY2010

Charts 2a and 2b show planned trends for the next three financial years. The background data are shown in annex table 3.

The winners remain social security (which could well rise further if there is significant increase in unemployment), health, education and international development. The treatment of defence is even worse than for the years FY1998 to FY2007. It is truly a case of feasts for social departments, but famine for defence.

Chart 2a: Departmental spending trends, FY2007 to FY2010, absolute increases, £bn

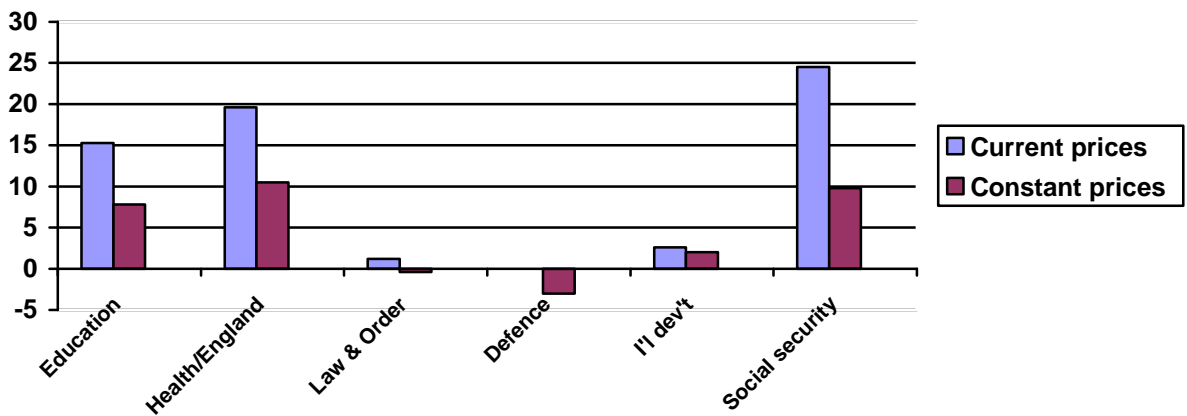
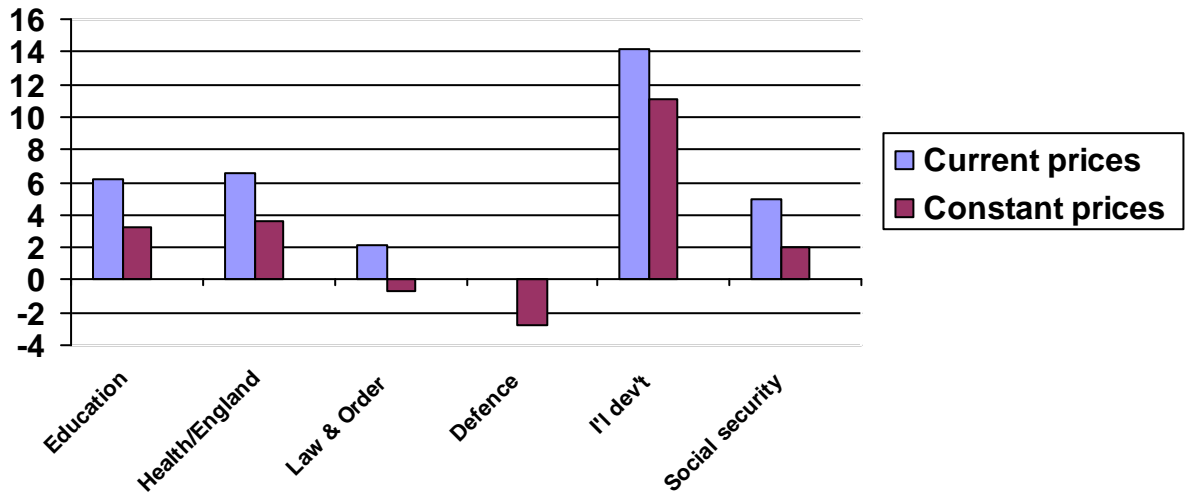


Chart 2b: Departmental spending trends, FY2007 to FY2010, average annual increases (%)

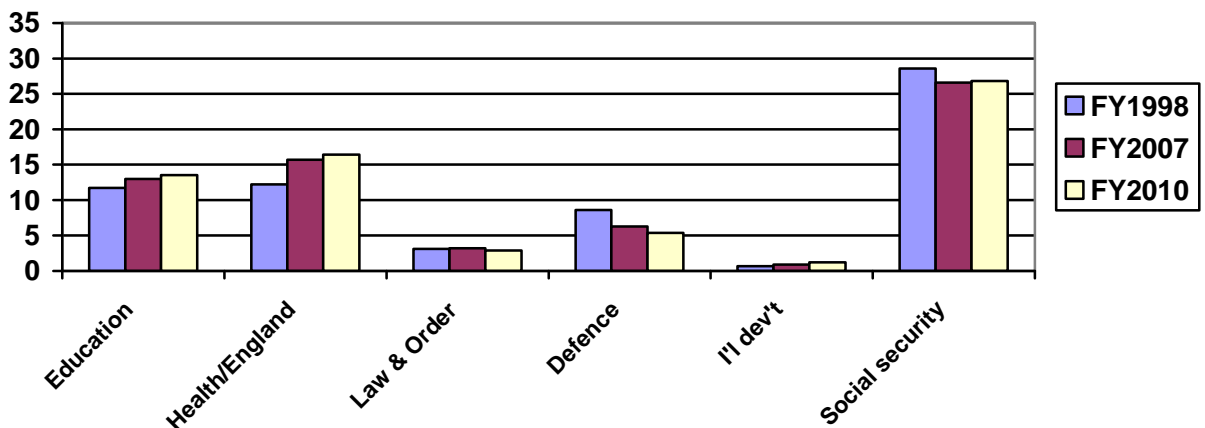


Departmental spending share of total spending: FY1998 to FY2010

One other way to look at the beneficiaries (or otherwise) of the Treasury's generosity is to analyse how the separate components have fared over time as a share of total spending, as shown in chart 3. The data for chart 3 are available from annex table 4.

This analysis, of course, confirms the general pattern. Education and health have significantly extended their take of state spending – from around 12% (each) for education and health in FY1998 to 13% and nearly 16% for education and health respectively by FY2007. Given the poor productivity performances in both these sectors, it is difficult to conclude the money has been well-spent.⁹ Defence's share appears to be shrinking inexorably.

Chart 3: Key spending items: share of Total Managed Expenditure (%)



References

1. Ruth Lea, "Chancellor Brown's legacy to Chancellor Darling is increasing public sector indebtedness", Arbuthnot Banking Group, 26 November 2008.
2. Ruth Lea, "The 'Big State' is back and undermining growth", Arbuthnot Banking Group, 18 February 2008.
3. HM Treasury, *Budget 2008*, HC388, March 2008.
4. The current price public sector data are conventionally deflated by the GDP at market prices deflator, even though public sector inflation exceeds GDP inflation. Using the GDP deflator gives an indication of the "resource" cost to the whole economy the public spending.
5. More detailed current price spending data are shown in annex table 1, which covers a more comprehensive list of spending budgets. The charts cover data from FY1998 (rather than from FY1997); the required data are only publicly available for the years FY1998 onwards.
6. Total Managed Expenditure (TME) equals departmental spending which is managed on a 3-year time-horizon ("Departmental Expenditure Limits" (DEL)) plus departmental spending managed annually, including social security payments and central government debt interest, (Annually Managed Expenditure (AME)).
7. Wanless Report, "Securing Our Future Health: Taking a Long-Term View", April 2002, available from the www.hm-treasury.gov.uk. This report concluded "that in order to meet people's expectations and to deliver the highest quality over the next 20 years, the UK will need to devote more resources to health care and that this must be matched by reform to ensure that these resources are used effectively." The money certainly has been spent, unmatched by reform.
8. Ruth Lea, "Public sector productivity: a shocking record", Arbuthnot Banking Group, 17 March 2008.
9. Op cit.

Annex

Table 1: Total Managed Expenditure: current prices, (£bn): some key components

	FY1998 (PESA 2004)	FY2002 (PESA 2004)	FY2002 (PESA 2008)	FY2007 (PESA 2008)	FY2010 (PESA 2008)
DEL¹					
DfES	12.9	23.9			
CSF ²			13.3	50.5	59.6
IUS ³			12.4	17.4	20.3
Health (mainly NHS)	40.5	57.5	58.8	91.8	111.4
Transport	4.6	9.0	9.6	13.5	14.4
ODPM	4.3	5.4			
CLG Communities			4.7	10.2	12.1
Local Government ²	32.7	37.6	37.6	22.8	26.5
HO	7.6	11.5	7.8	9.3	10.3
Constitutional Affairs	2.7	3.4			
Justice			8.2	9.5	9.7
<u>Sub-total</u>	10.3	14.9	16.0	18.8	20.0
Defence	28.5	29.3	29.3	36.9	36.9
FCO	1.1	1.5	1.5	2.1	1.7
International Dev't	2.4	3.6	3.4	5.3	7.9
Trade & Industry	3.1	4.2			
BERR ³			1.8	4.0	3.4
DEFRA	2.0	2.4	2.5	3.8	4.0
Work & Pensions	5.2	7.9	7.2	8.0	7.4
Scotland	13.4	18.0	17.9	27.0	29.8
Wales	6.8	9.6	9.7	13.8	15.8
N Ireland	5.8	8.0	7.5	9.9	10.9
Total DEL	179.4	240.6	241.2	345.2	396.7
Memo: total education spending ⁴	38.8	53.8	52.9	76.2	91.5
AME¹					
Social security benefits	95.0	113.9	113.6	140.3	159.7
Tax credits	0.1	5.8	5.7	15.4	20.5
<u>Sub-total</u>	95.1	119.7	119.3	155.7	180.2
Locally financed exp	17.4	19.8	20.1	29.0	37.4
CG gross debt interest	28.8	20.8	20.9	29.9	34.0
Total AME	153.3	178.3	179.9	241.1	283.1
Total TME¹	332.7	418.9	421.0	586.3	679.8

Footnotes:

(1) Total Managed Expenditure (TME) = Departmental Expenditure Limits (DEL) + Annually Managed Expenditure (AME).

(2) Note the shift in education funding from Local Government to the Department of Children, Schools and Families (CSF) - from FY2006.

(3) Note the shift in the science funding from the DTI to the Department of Innovation, Universities and Skills (IUS).

(4) Note this includes spending by the CSF, local authorities and devolved administrations.

Sources: HM Treasury and ONS, *Public Expenditure Statistical Analyses 2004 (PESA 2004)*, and HM Treasury, *Public Expenditure Statistical Analyses 2008 (PESA 2008)*. The early totals quoted from PESA 2004, above, have since been marginally revised.

Table 2: Key spending items, current & constant FY2007 prices, £bn: FY1998 and FY2007

	FY1998	FY2007	Total increase in spending (£bn)	Average annual growth (%)
<u>Current prices</u>				
Total education spending	38.8	76.2	37.4	7.7
Health (mainly NHS, England)	40.5	91.8	51.3	9.4
Law & Order	10.3	18.8	8.5	6.8
Defence	28.5	36.9	8.4	2.9
International Dev't	2.4	5.3	2.9	9.1
Social security benefits (inc. tax credits)	95.1	155.7	60.6	5.6
Total Managed Expenditure	332.7	586.3	253.6	6.4
<u>Constant FY2007 prices</u>				
Total education spending	48.4	76.2	27.8	5.1
Health (mainly NHS, England)	50.6	91.8	41.2	6.8
Law & Order	12.9	18.8	5.9	4.2
Defence	35.6	36.9	1.3	0.4
International Dev't	3.0	5.3	2.3	6.5
Social security benefits (inc. tax credits)	118.7	155.7	37.0	3.0
Total Managed Expenditure	415.4	586.3	170.9	3.9

Note: constant price data deflated using the GDP at market prices deflator: FY2007=100; FY1998=80.1.

Table 3: Key spending items, current & constant FY2007 prices, £bn: FY2007 and FY2010

	FY2007	FY2010	Total increase in spending (£bn)	Average annual growth (%)
<u>Current prices</u>				
Total education spending	76.2	91.5	15.3	6.2
Health (mainly NHS, England)	91.8	111.4	19.6	6.6
Law & Order	18.8	20.0	1.2	2.1
Defence	36.9	36.9	0	0
International Dev't	5.3	7.9	2.6	14.1
Social security benefits (inc. tax credits)	155.7	180.2	24.5	4.9
Total Managed Expenditure	586.3	679.8	93.5	5.0
<u>Constant FY2007 prices</u>				
Total education spending	76.2	84.0	7.8	3.3
Health (mainly NHS, England)	91.8	102.3	10.5	3.6
Law & Order	18.8	18.4	-0.4	-0.7
Defence	36.9	33.9	-3.0	-2.8
International Dev't	5.3	7.3	2.0	11.1
Social security benefits (inc. tax credits)	155.7	165.5	9.8	2.0
Total Managed Expenditure	586.3	624.2	37.9	2.1

Note: constant price data deflated using the GDP at market prices deflator: FY2007=100; FY2010=108.9.

Table 4: Total Managed Expenditure, key components, current prices, £bn ¹

	FY1998 (£bn)	FY2007 (£bn)	FY2010 (£bn)
Total education spending ²	38.8 (11.7)	76.2 (13.0)	91.5 (13.5)
Health (mainly NHS, England) ³	40.5 (12.2)	91.8 (15.7)	111.4 (16.4)
Transport	4.6 (1.3)	13.5 (2.3)	14.4 (2.1)
Law & Order	10.3 (3.1)	18.8 (3.2)	20.0 (2.9)
Defence	28.5 (8.6)	36.9 (6.3)	36.9 (5.4)
International Dev't	2.4 (0.7)	5.3 (0.9)	7.9 (1.2)
Scotland	13.4 (4.0)	27.0 (4.6)	29.8 (4.4)
Wales	6.8 (2.0)	13.8 (2.4)	15.8 (2.3)
Northern Ireland	5.8 (1.7)	9.9 (1.7)	10.9 (1.6)
Social security benefits (inc. tax credits)	95.1 (28.6)	155.7 (26.6)	180.2 (26.8)
Total Managed Expenditure	332.7 (100.0)	586.3 (100.0)	679.8 (100.0)

(1) The data in brackets show the % share of TME.

(2) Education spending: includes spending by the CSF, local authorities and devolved administrations.

(3) The health data exclude spending of the devolved administrations.

Sources: HM Treasury and ONS, *Public Expenditure Statistical Analyses 2004 (PESA 2004)*, for FY1998 and HM Treasury, *Public Expenditure Statistical Analyses 2008 (PESA 2008)* for FY2007 and FY2010.

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