Office for
Budget
Responsibility

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Budget and Autumn Statement policy changes since 1970

The OBR has today published a database of Budget and Autumn Statement policy measures announced since Roy Jenkins' final Budget in 1970. It covers all significant tax measures announced between the 1970 Budget and Alistair Darling's final Budget in March 2010. It then includes all tax and spending measures announced since the Coalition Government's June 2010 Budget. We plan to update the database after each Budget and Autumn Statement.

Tax measures since 1970

The database shows the amounts of money estimated to be raised or spent by governments on each of more than 1,000 tax changes announced since the 1970 Budget. Between 1970 and 2010, all tax changes worth £50 million or more in any year are included; from the June Budget 2010, when the OBR began certifying policy costings, all tax measures are included.[1]

The database takes the official costings of these measures published in Treasury documents and assumes that the amount raised or spent has risen thereafter with the cash size of the economy. The database has been published as an Excel spreadsheet, which we hope will be of use to researchers, journalists and others interested in the history of tax policy.

Looking at the amount to be raised or spent in 2018-19 as a result of these tax measures, the database suggests that the biggest 'giveaway' tax packages were the Budgets of 1972 (£44 billion), 1988 (£24 billion) and 1978 (£23 billion), while the biggest 'takeaway' tax packages were the Budgets of 1993 (£28 billion), 1975 (£22 billion) and 1981 (£19 billion).

History has not looked kindly on the biggest tax-cutting Budgets. The 1972 and 1988 Budgets have been blamed for stoking inflation in the 'Barber boom' and 'Lawson boom' that followed – although other factors were also at play:

[1] http://budgetresponsibility.org.uk/data/

the oil shock in the 1970s and financial deregulation in the 1980s, for example. With an election looming, Labour's Denis Healey announced significant net tax cuts in his 1978 Budget – and was then forced to go further in the Finance Act by the Conservatives and Liberals.

The biggest tax-raising Budgets came at difficult times for the public finances and the economy. Norman Lamont's March 1993 Budget (followed by another later that year from Kenneth Clarke) aimed to reduce the substantial budget deficit that had opened up over the previous two years, and to balance the loosening of monetary policy that followed sterling's departure from the European exchange rate mechanism in 1992. Denis Healey raised taxes and cut spending in his 1975 Budget primarily to help reduce inflation, at a time when pay restraint was proving hard to achieve. Geoffrey Howe's 1981 Budget remains one of the most controversial of recent times: unnecessarily increasing unemployment for years in the eyes of some and laying the foundation for a period of healthy economic growth in the eyes of others.

The largest single tax cuts were the increases in income tax allowances announced in the Budgets of 1972 (£33 billion), 1979 (£16 billion) and 1980 (£15 billion). The biggest tax cut of the past decade was the reduction in the basic rate of income tax to 20p in Budget 2007 (£14 billion, the sixth largest tax cut in the database).

The largest tax increases were the move to a 15 per cent standard rate of VAT in the Budget of 1979 (£37 billion), the further increase to 17.5 per cent in 1991 (£18 billion) and the increase in the basic and higher rates of income tax in 1974 (£17 billion). The increase in VAT to 20 per cent in the June 2010 Budget comes fourth on the list (£16 billion).

Given the historical span and the range of measures involved, all these estimates are necessarily very approximate – they assume that the original official costings were accurate and that the amounts raised or spent would move in line with the cash value of GDP over long periods.

As best we can tell, the tax cuts and tax increases have broadly offset each other over the past 45 years. That means that, in aggregate, their main effect has been to change the structure of the tax system – more money is raised through indirect taxes, less through direct taxes – rather than to change the overall tax burden significantly.

Policy measures since June Budget 2010

The OBR has extended the database to cover all tax and spending measures contained in Budgets and Autumn Statements since June Budget 2010. It is based on the same methodology of using published costings and assuming that they grow with the cash value of GDP over subsequent years, so subject to the same caveats, particularly beyond the period covered by certified costings.

The database implies that by 2018-19, the Coalition Government's policies will have totalled a net 'takeaway' of £67 billion (3.3 per cent of GDP in that year) relative to unchanged policy (i.e. the fiscal consolidation that had been pencilled in by the previous Labour Government) and the assumptions used to roll that forward. That is made up of £57 billion of net spending cuts and £10 billion of net tax rises.

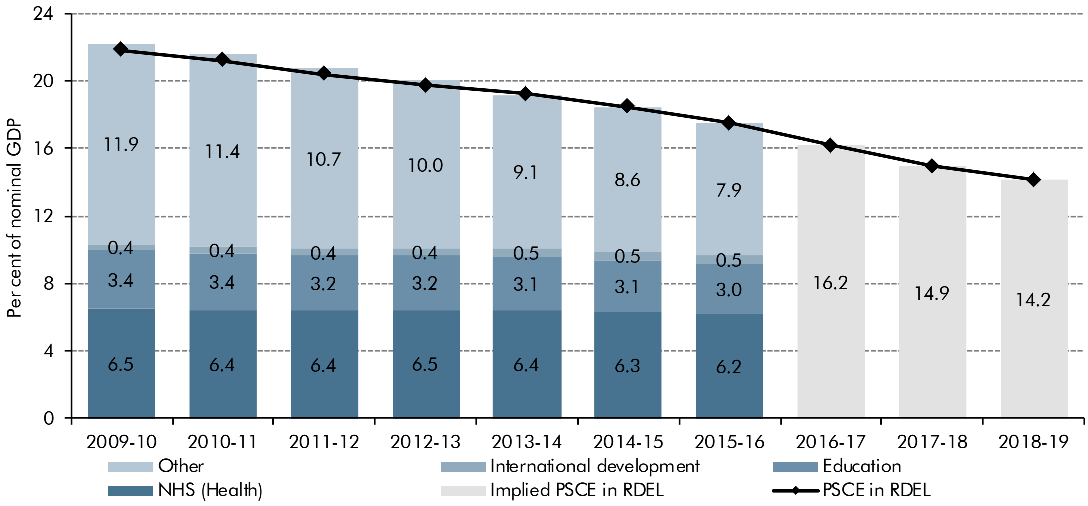
On the spending side, the database reports £89 billion of gross cuts and £32 billion of gross increases in 2018-19. This size of the gross changes reflects the interaction between welfare cuts beyond the Spending Review horizon and the Government's total spending assumption – these mean that gross welfare cuts deliver offsetting gross increases in implied departmental spending to deliver the assumed amount of total spending. On the tax side, the database reports £59 billion of gross tax rises and £48 billion of gross tax cuts in 2018-19.

In terms of spending, the largest contribution to the takeaway comes from day-to-day (i.e. non-investment) spending on public services and administration, known as Resource Departmental Expenditure Limits (DEL), which our latest forecasts suggests will have fallen from 21.8 per cent of GDP in 2009-10 to 14.2 per cent of GDP in 2018-19, as shown in the chart below. That reflects both the Government's firm spending plans up to 2015-16 and the implied envelope for Resource DEL consistent with the Government's total spending assumption from 2016-17 to 2018-19 and our forecast for Annually Managed Expenditure in those years. Departmental capital spending, or Capital DEL, was increased slightly relative to the plans inherited, notably in Spending Review 2010.

Other major sources of spending 'takeaway' have been measures that changed the indexation of various benefits and other spending items. The June Budget 2010 switch from indexing to RPI inflation to CPI inflation for benefits, tax credits and public service pensions is shown saving £7 billion in 2018-19. The Autumn Statement 2012 package of measures that reduced uprating of a number of working-age benefits to 1 per cent a year rather than CPI inflation is shown saving £4½ billion in 2018-19.

Within the Coalition's tax measures, increasing the standard rate of VAT to 20 per cent is shown as raising £16 billion in 2018-19, while successive measures to raise the income tax personal allowance collectively cost £14 billion in 2018-19 and successive measures to reduce the main rate of Corporation Tax together cost £7 billion.

Current spending on public services and administration



Plans for RDEL excluding depreciation upto 2015-16. Beyond 2015-16 based on implied PSCE in RDEL calculated from the Government assumption for TME. Other includes unallocated amounts.
Source: HM Treasury Budget 2014, HM Treasury Public Expenditure Statistical Analyses, July 2013

Notes

1. The Office for Budget Responsibility is the UK's independent fiscal watchdog – responsible for producing forecasts for the economy and the public finances, judging progress towards the Government's fiscal targets, and reporting on long-term fiscal sustainability.

2. Our documents are available here: http://budgetresponsibility.org.uk/

3. Questions should be sent to OBRpress@obr.gsi.gov.uk