Economic and Social Research Council

Social Science and Policy

IFS Institute for Fiscal Studies

Summary of IFS pre-Autumn Statement 2023 briefing

This fiscal event is probably the least predictable in recent history. Where the much-trailed extra money will come from to pay for possible tax cuts is not means obvious. Possible sources include:

- Market expectations of interest rates reductions have become more optimistic over the last six weeks – this will reduce debt servicing costs.

- Borrowing is likely to end the year £20bn or even £30bn lower than the March forecast.

- The Chancellor's freezing of allowances and thresholds was expected to raise £8bn – it is now on course to raise more like £50bn.

- The OBR may have improved its already optimistic growth forecasts.

- The Government has consulted on redefining 'ill' and 'fit for work' with a view to cutting that part of the benefits budget (but this rarely results in a net reduction of cash going out).

The previous period of austerity has meant that spending areas to cut are few.

The background to the Autumn Statement includes the following facts:

- The economy has avoided recession but is barely growing, and living standards are much as they were ten years ago.

- While inflation has halved, it is still slightly more than twice the target rate. Counter-intuitively, this has had a benign effect on the public finances: rising cash incomes drag more people into the higher tax brackets.

- This is the highest taxing parliament in the post-war period. Drivers pushing up spending include high debt interest payments and day-to-day spending on public services rising by 3% a year against a 40-year average of less than 2%.

- Over the next five years, there will be 80% more adults paying 40% and 45% – making higher tax a permanent feature of the economy.

- Tax, as a portion of national income fluctuated between 32% and 34% for 50 years but has now jumped to 37%. The structure of income tax has changed completely, and current levels may have established a new equilibrium.

- Around 2025, total Government revenues are forecast to be higher than spending (excluding debt interest). This means the Government will be taking more money out of the economy than it is putting into it.

- There is quite a significant range of economic forecasts with the OBR the most optimistic and the Bank of England the least. There are several objective parameters that will constrain this or any other government.

The apparent decline in NHS hospital productivity is puzzling and worrying. While GPs are seeing more people, hospitals with 15% more consultants and 10% more nurses are reporting no greater activity.

NHS productivity has flatlined over the last decade and a half and continues to do so. Because the NHS budget is protected and is only going to grow in real terms as the population ages, this tightens spending in other areas of the public sector.

Even so, debt will only just stabilise at 95% of national income in five years' time.

The Bank of England's use of interest rates to bring inflation down has entered a new environment in which the effects of interest rates take longer to percolate through the economy.

Only a third of homeowners now have a mortgage – far fewer than a generation ago (because many of the Baby Boomer generation own their homes outright). The move away from floating rate mortgages to two- and three-year fixed mortgages means that the pain of interest rate increases may take over a year to transmit to mortgage holders.

While it is unknown how quickly homeowners cut their spending anticipating or experiencing a rise in mortgage payments, there is a risk of recession in Q3 of next year.

There has been speculation around inheritance tax, stamp duty and the higher-rate threshold:

- Cutting inheritance tax rate from 40% to 30% would cost around £2bn.

- Abolishing stamp duty for primary residences costs around £6bn.

- Using October rather than September inflation to uprate working-age benefits would cut spending by £3bn.

- The pensions triple-lock cost is £2bn up relative to last March's forecasts. Excluding bonuses would reduce this to £1.4bn.