Increasing Public Spending: Comparison of Policy Costings

Scottish Government **March 2015**

Introduction

1. On 11 February 2015, the First Minister set out the Scottish Government's proposal to increase total departmental expenditure by 0.5% per annum in real terms between 2016-17 and 2019-20, as an alternative to the austerity plans set out by the UK Government in its Autumn Statement. This proposal is sustainable with the deficit and debt as a share of GDP falling by the end of the next Parliament.

2. The view that further austerity is not necessary and the alternative proposal set out by the First Minister was endorsed by Jonathan Portes, the Director of the National Institute of Economic and Social Research (NiESR):

"This idea that further austerity is inevitable, desirable and necessary simply doesn't add up from an economic perspective, and in that sense, I think, Nicola Sturgeon is quite right to put these issues on the agenda." (BBC News, 11 February 2015).

3. On 9 March 2015, HM Treasury published policy costings of the Scottish Government's proposal to grow total departmental spending in real terms by 0.5% each year from 2016-17 to 2019-20.[1]

4. Their paper sets out a slightly different methodology. However, even under HM Treasury's calculations, relaxing austerity as the Scottish Government has set out is consistent with reducing the deficit and putting debt on a downward trajectory over the next UK Parliament. It therefore confirms that there is scope for additional expenditure compared to the Coalition plans set out at the Autumn Statement.

Comparison of Methodologies

5. The projections of public finances set out by the Scottish Government were based on published OBR forecasts.

6. These projections use a transparent and straightforward approach to allocate debt, as a result of the extra spending proposed by the Scottish Government, in the year following the borrowing.

7. The Treasury analysis adds the debt, arising from the proposed Scottish Government approach, in the same year as the borrowing occurs.

8. Both methodologies yield similar results with regard to the deficit, with it falling to around 2.0% at the end of the Parliament. In addition, debt is forecast to be falling each year after 2017-18 onwards and is therefore on a downward trajectory by the end of the Parliament.

9. Neither the Scottish Government nor the Treasury's methodologies account for the positive second round or behavioural effects that arise from the extra spending proposed. For example, a detailed assessment of the Scottish Government's alternative spending proposal would also need to take into account the positive impacts of additional spending on GDP and tax revenue, which could be substantial and in turn reduce the debt to GDP ratio still further.

Comparison of Results

10. Under both methodologies, increasing total departmental spending by 0.5% per annum from 2016-17 allows the deficit to continue to decline in each year over the next Parliament. It reaches 2.1% under the Scottish Government methodology and 2.0% under the Treasury's methodology in 2019-20.

[1] https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/410051/Opposition_costing_-_SNP_Departmental_spending.pdf

11. The Treasury's figures, based on an additional £180 billion spending, give a slightly higher debt trajectory than the Scottish Government's approach. Nevertheless, net debt, as a share of the economy, is forecast to be falling each year from 2017-18 onwards and is therefore on a downward trajectory by the end of the Parliament.

12. Even if the Treasury's methodology, in terms of adding borrowing to debt in the year it is undertaken, is applied, a falling debt to GDP trajectory over the whole of the next Parliament would still allow additional spending of £165 billion, as illustrated in the table below. This endorses the point that there is substantial room for manoeuvre in spending plans whilst still reducing the deficit and debt over the next Parliament.

Table: Alternative Spending Proposal, HMT Methodology

	2015-16	**2016-17**	**2017-18**	**2018-19**	**2019-20**	**TOTAL**
Additional Spending (£ billions)	0.0	8.0	36.5	52.5	68.1	165.1
Public Debt (as % GDP)	81.10%	81.07%	81.04%	81.00%	80.95%	

Conclusion

13. The Scottish Government has shown that it is not necessary for austerity to continue as planned by the UK Government. There is substantial room for additional spending whilst still keeping the public finances on a sustainable path.

14. Depending on the calculation of the debt to GDP ratio, the extra spending would be in the region of £165 billion to £180 billion over the next Parliament.