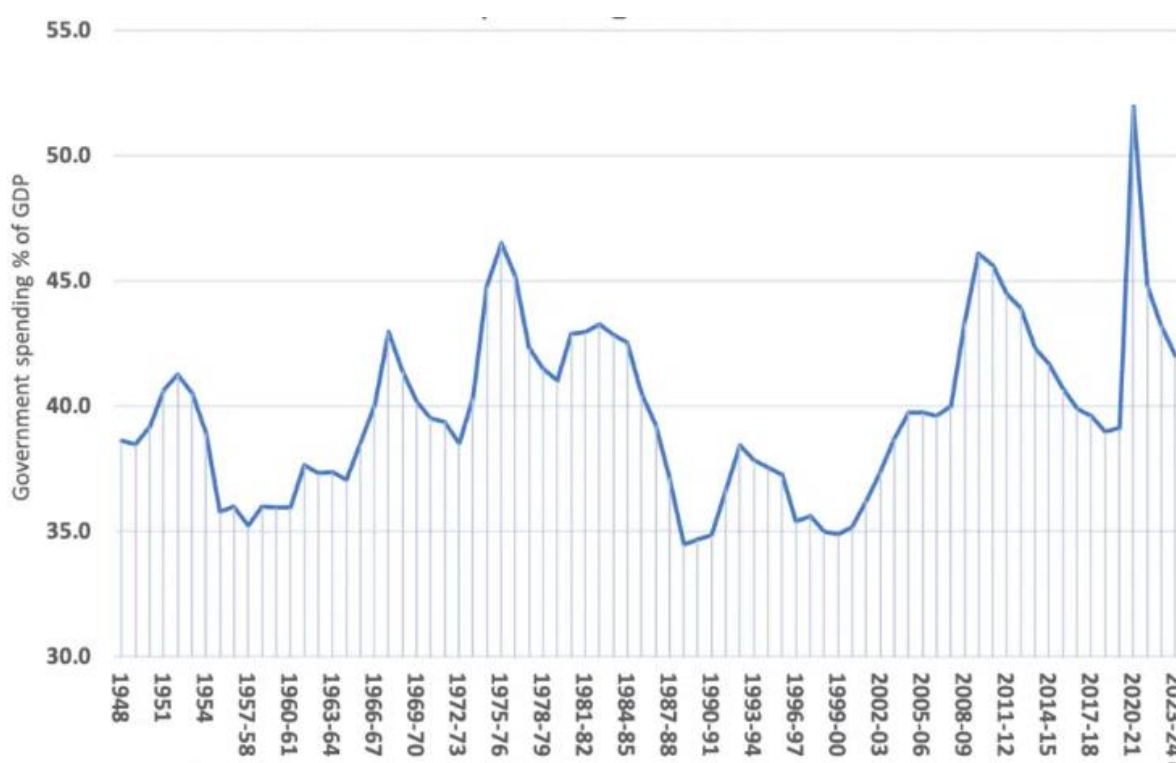


UK Government Spending: How has it changed?

The spending plans presented by the Chancellor Jeremy Hunt in November 2022 included cuts from 2024-25 onwards, raising fears about a return to austerity.¹ The increases in spending announced in March this year in relation to more free childcare hours and defence meant that 25% of the cuts announced in November have now been reversed. Nevertheless departmental or day-to-day spending is still set to decline as a share of gross domestic product (GDP) over the next five years. Although health and education are protected, other departments are still facing cuts of up to 14% by 2027.²

At the height of the pandemic in 2021-22 the UK's total spending rose to 53.0% of GDP although by 2021-22 this had fallen back to 44.5%. The Office for Budget Responsibility (OBR) forecasts that spending will “reach 43.4% of GDP in 2027-28.” It points out however that this will still 4.1% higher than it was just before the pandemic in March 2020.³

The chart ⁴ shows the general flow of government expenditure from 1948 onwards as a percentage of GDP. From the early fifties until the mid-1970s there was a steady increase in government expenditure under both Labour and Conservative governments. The increase in expenditure was particularly evident in the growth of social services. In 1955 13.9% of GDP was devoted to social services, while by 1964 it was 16.5% and by 1979 23.9%.⁵ Total expenditure reached one of its highest points in 1975-76 with 46.4% of GDP.⁶



For the Conservatives who came to power in 1979 under Mrs Thatcher, excessive public spending by Labour during the seventies was “*at the heart of Britain’s economic difficulties.*” Although cutting back on public spending therefore became a key part of the new Conservative government’s policy, “*scepticism about public expenditure and its growth had always been an element in Conservative politics*” Only a small number of programmes however were actually cut – overseas aid, trade and industry and housing. Initial cuts focussed on capital spending especially housing where between 1979 and 1984 the fall was

almost 34%. On the other hand there were large increases in defence and law and order, as well as help for the coal industry.⁷ The result was that the average expenditure for the 1980s as a whole was 40.04%, similar to the average for the 1970s which was 41.83%.⁸

Between 1997 and 2010 total public spending under New Labour grew in real terms by an average of 3.4% a year. Within that, spending on public services grew at an average rate of 4.4% a year compared to 0.7% under the Conservatives. In particular there was a huge expansion of spending on education and especially on health. Spending on the NHS went up by around 6.0% a year, while spending on education increased by 3.9% a year. As well as education and health, spending was also directed at areas such as reducing child and pensioner poverty. Spending on defence also increased under Labour, largely due to military operations in Afghanistan and Iraq.⁹ Between 1997 when Labour came to power, and 2008 at the beginning of the financial crash and recession in 2008-09, average total spending was 37.5% of GDP.¹⁰

In the run-up to the 2010 election the Conservatives successfully argued that the increased borrowing and rising debt levels were due to Labour's excessive spending rather than the financial crash and subsequent recession.¹¹ Total spending in 2009-10 for example reached another of its highest points on record at 46.1%. The incoming Coalition government declared it would *"significantly accelerate the reduction of thedeficitwith the main burden of deficit reduction borne by reduced spending rather than increased taxes."* As a result real public sector spending per person fell every year between 2010 and 2019.¹² The Resolution Foundation have described this period as *"the longest pause in spending growth in modern times, eclipsing the six-year period associated with privatisation in the 1980s."*¹³

Although Health saw an increase in its budget from 2010, it was the lowest increase in the history of the NHS. Between 2010 and 2020 the average growth of health spending was 1.4%. The second lowest average growth of 2% per year was also during a Conservative government between 1980 and 1990. By contrast between 1999 and 2009-10 total spending on the NHS grew by an average of 6.3% a year, the highest ever rate of growth over a 10-year period.¹⁴

The programme of cuts that the government pursued continued until the arrival of Boris Johnson in Downing Street in the last half of 2019, immediately prior to the Covid-19 pandemic. Just before the pandemic in March 2020 public expenditure was 39.3% of GDP. According to the OECD 20 countries out of 33 had higher spending levels at that point than the UK. The highest spending country was France at 55.3%. Other countries with over 50% were Finland, Belgium and Norway. The lowest spending country was Ireland at 24.2% followed by Lithuania, Korea and Switzerland. The United States spent the equivalent of 38.4% of its GDP.¹⁵

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Notes

Total public spending includes day-to-day spending by the public sector, including central government, local authorities and public organisations. It also includes investment – this is money that goes into long-term things like roads, bridges, school buildings, new hospitals and equipment. For more on government expenditure see our previous article, ‘Austerity: Is it all over?’ 26 January 2022.

In the run-up to the 2019 election the spending proposals of the three main parties were significantly different. The Conservative plans were by far the smallest and would have left spending on public services about 15% lower than it was at the start of 2010. The Labour party had the largest spending proposals which when day-to-day spending was taken together with investment spending, would have meant overall spending rising to the level last seen in 1976-77 that is, 45.2% of GDP. This is not wildly different from what the OBR predicts for 2027 (see above paragraph 2). Nor as we have seen is it that different from other developed economies which have opted for a strong state. (Labour Manifesto: an initial reaction from IFS researchers, November 2019, <https://election2019.ifs.org.uk/article/labour-manifesto-an-initial-reaction-from-ifs-researchers>)