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Government spending set to reach 50 per cent of GDP in UK by 2010/11 and almost 70 per cent of GDP in Northern Ireland and Wales

Spending plans recently released by HM Treasury show significant increases in the share of public expenditure across all regions of the United Kingdom. cebr has repeated its annual analysis of the latest regional spending statistics and has calculated that **government expenditure is forecast to rise to nearly 70 per cent of regional output** for some countries and regions within the United Kingdom in 2010-11.

Public spending as a share of Gross Domestic Product in the United Kingdom is forecast to rise to 50.0 per cent in 2010-11 from 41.1 per cent in 2007-08. However, this average masks significant differences across the twelve countries and regions within the United Kingdom. **Northern Ireland and Wales are forecast to see their shares of regional government expenditure rise above 69.0 per cent of output in 2010-11** from 59.4 per cent and 57.5 per cent respectively, in 2007-08. Whereas public spending in the South East, which enjoys the lowest share of regional output is expected to rise to only 40.0 per cent of the region's GDP in 2010-11 from 32.4 per cent in 2007-08. The analysis shows how great is the scale of divergence in public spending between regions in the United Kingdom as a share of GDP. In Cuba, government budget expenditure as a share of GDP is expected to fall to around 60 per cent in 2010-11.

Our calculations are based on an analysis of the 2009 release of a little known report called the Public Expenditure Statistical Analysis (PESA), published by HM Treasury. Our estimates of Total Managed Expenditure – the most commonly accepted interpretation of 'public spending' – for all regions and countries in the United Kingdom are based on published plans for total central government and public corporations' identifiable expenditure on services by country and region. This category, which represents 71 per cent of Total Managed Expenditure, is the only one which includes plans for future spending. We have used these plans to forecast the rise in total identifiable expenditure for all regions and countries, which is presented in table 9.1 of PESA 2009. What is excluded from this category is spending overseas and some types of public spending where it is conceptually difficult to allocate the spending by region or country including defence, debt interest and EU transactions. In our estimates the figures for identifiable public spending are then scaled up for the non-identifiable items, assuming that they are split in relation to GDP. We then express the spending plans as a percentage of regional GDP using cebr forecasts and published regional GVA estimates in order to allow for international comparisons.

Evidence recently submitted by cebr to the House of Lords Select Committee on the Barnett Formula called for high spending parts of the United Kingdom to reduce their levels of public spending as a share of GDP by around five per cent of local GDP to offset the subsidy from the rest of the country. The problems are two-fold; firstly, parts of the United Kingdom have become so dependent on the state that it is crowding out private enterprise making a private sector-led recovery even more difficult to achieve. Secondly, the loss of government tax receipts from the rest of the country but particularly London and the City represents a significant shortfall that will ultimately have to be made up elsewhere.

It is partly a chicken and egg situation – public spending in some regions is high because they are doing less well economically, but on the other hand a high public spending share can impede the revival of the private sector. The latest data suggest that this problem is due to get worse.

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Public spending as a share of GDP by country/region



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	2007-08	2008-09	2009-10	2010-11
North East	53.0%	56.6%	61.6%	63.1%
North West	48.2%	51.7%	56.8%	58.4%
Yorkshire and the Humber	45.4%	48.6%	53.2%	54.9%
East Midlands	41.2%	44.2%	48.6%	50.5%
West Midlands	45.6%	48.7%	54.2%	55.8%
East	35.1%	37.6%	42.1%	43.7%
London	33.3%	35.4%	39.5%	40.9%
South East	32.4%	34.3%	38.5%	40.0%
South West	40.7%	43.3%	48.1%	49.7%
Total England	39.1%	41.8%	46.3%	47.9%
Scotland	48.7%	51.1%	55.8%	57.7%
Wales	57.5%	61.6%	67.3%	69.1%
Northern Ireland	59.4%	62.1%	67.9%	69.2%
United Kingdom	41.1%	43.7%	48.4%	50.0%

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