Welfare State Default Briefing Note

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Summary

It is vital that MPs consider the serious implications of our current public debt commitments and public debt projections.

On current projections, the UK will default on its welfare state commitments, including those related to pensions. We must move our debt projections to a sustainable path. The reports that this briefing looks at highlight the need to take a long-term view of our public finances.

Government Actuary's Quinquennial Review of the National Insurance Fund as at April 2020 (Published March 2022)[1]

The latest Government Actuary's Department review of the Great Britain National Insurance Fund looked at the extent to which the Fund may be able to support demand with regards to benefit payments – unemployment benefits, sickness benefits, retirement pensions etc… – over the period of 2020-2021 to 2085-2086.

The review makes clear that on our current trajectory **the Fund will reach zero in 2043-2044**. This means that **the UK will effectively default on its welfare spending commitments in 2043-2044.** Chart 2.1 illustrates this. The review states in paragraph 1.2:

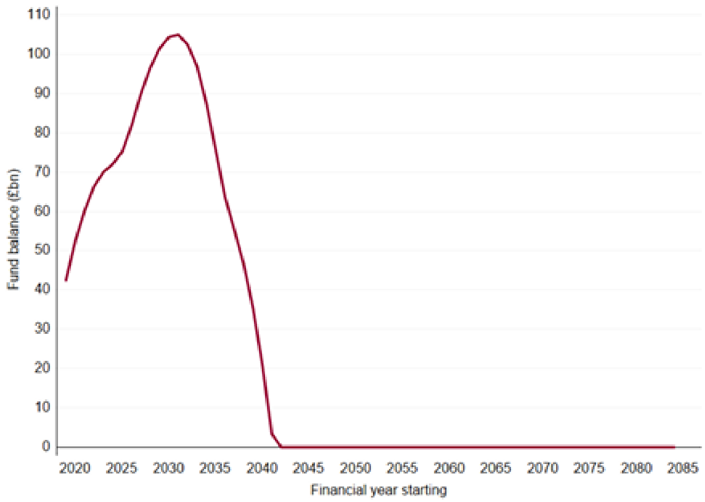
"The principal projection to 2085-2086 shows that the Fund balance is projected to rise to £104.9bn in 2032-2033 then to decrease and, **in the absence of any additional financing, will be exhausted in 2043-2044**. This projection does not allow for any Treasury Grants that may be paid in the future to support projected benefit expenditure."

Despite the British public experiencing the highest tax burden in 70 years, from 2033-2034 the Fund's expenditure will begin to exceed its income. The review states in paragraph 1.11:

"The breakeven contribution rate is expected to exceed the current combined Class 1 NIC rate from 2033-2034, at which point Fund income would not be sufficient to cover Fund expenditure, and the Fund balance would begin to reduce."

[1] https://www.gov.uk/government/publications/government-actuarys-quinquennial-review-of-the-national-insurance-fund-as-at-april-2020

Chart 2.1 – Projected Fund balance 2020-2021 to 2085-2086

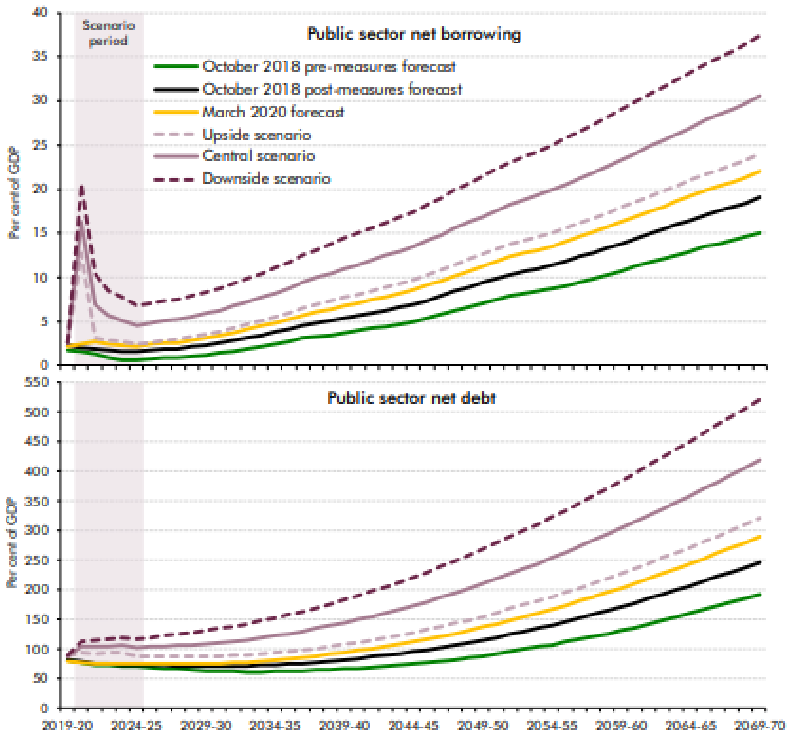


<u>**Office for Budget Responsibility Fiscal Risks & Sustainability Report 2020 & 2022 (Published July 2020 & July 2022 respectively)**</u>[2,3]

The OBR's 2020 Fiscal Risks & Sustainability Report makes clear that that our current public sector debt path is simply unsustainable for any Government. Chart 4.5 sets out the OBR's 2020 projected trajectory for the Government. The report states in paragraph 4.20:

"In reality, no government could attempt to run the public finances along the paths implied by these scenarios for any length of time without running into financing difficulties. At some point, policies would need to change in order to bring the public finances onto a nonexplosive trajectory."

Chart 4.5: Public sector net borrowing and debt projections



Note: The October 2018 forecasts' 2024-25 jumping-off points are assumed to equal their 2023-24 medium-term horizon values.
Source: ONS, OBR

[2] https://obr.uk//docs/dlm_uploads/Fiscal_risks_and_sustainability_2022-1.pdf
[3] https://obr.uk/fsr/fiscal-sustainability-report-july-2020/

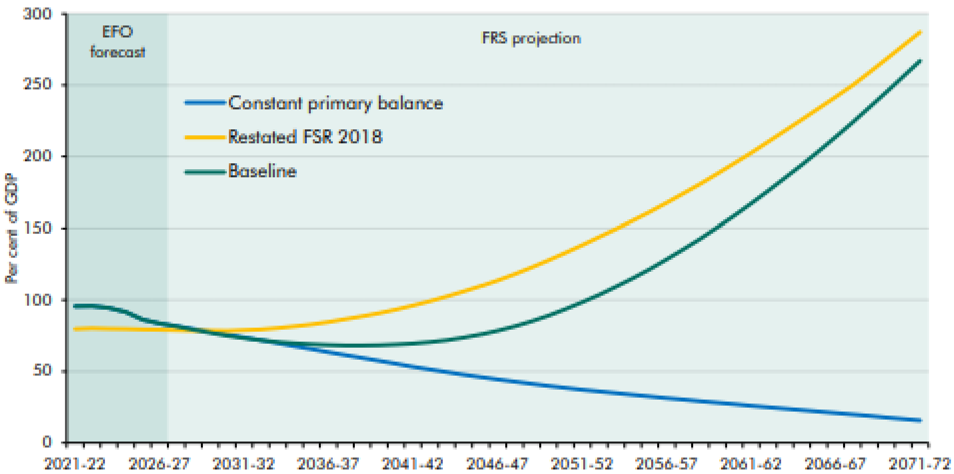
The OBR's 2022 Fiscal Sustainability Report does not paint a much better situation. In Table 4.11, it projects that the deficit would **move above 10% of GDP in the 2050s** and even move above 20% by the 2071-72. **Outside of major wars, the UK has never run a deficit in excess of 10 per cent of GDP**, but that is our current trajectory. Similarly, Table 4.13 illustrates the unsustainable path that our current debt projections are on.

Table 4.11: Baseline projections of fiscal aggregates

	Per cent of GDP						
	Estimate[1]		FRS projection				
	2021-22	2026-27	2031-32	2041-42	2051-52	2061-62	2071-72
Primary spending	40.3	38.7	38.3	40.2	42.8	46.0	48.4
Primary receipts	37.0	38.9	38.3	37.7	37.1	37.2	37.2
Primary deficit	3.3	-0.2	0.1	2.5	5.7	8.8	11.2
Net interest	2.1	1.3	0.7	0.5	2.4	5.1	9.0
Total managed expenditure	43.4	41.1	40.7	43.3	47.7	53.6	60.0
Public sector current receipts	38.0	40.0	40.0	40.4	39.5	39.6	39.7
Public sector net borrowing	5.4	1.1	0.7	3.0	8.1	14.0	20.3
Public sector net debt	96	84	73	69	98	167	267
Public sector net financial liabilities	83	74	62	58	88	158	259
Public sector net worth (inverted)	79	66	63	64	90	153	245

[1] Estimates are consistent with the March 2022 *Economic and fiscal outlook*.

Chart 4.13: Projections of public sector net debt



Source: OBR