

We need to talk about...

GOVERNMENT SPENDING

Can the government just create more money?

The Bank of England (BoE) can and did after the financial crisis in 2008 (what's called Quantitative Easing). But the risk is that it causes inflation (prices going up) and people losing confidence in the system. The BoE is owned by the Government which sets its goals but its day-to-day activities are independent.

93% of government income this year will come from tax

1 TAX

Are taxes good or bad?

BAD

- Reduces people's take-home pay
- Can make buying stuff including essentials more expensive
- Can reduce consumption, investment and jobs created in private sector
- Interferes in people's economic decisions

GOOD

- Can fund better public services like the NHS and schools
- Can be used to redistribute wealth from rich to poor
- Can encourage people to save money for when they're retired, ill or unemployed
- Can fund government spending aimed at boosting consumption, investment and jobs
- Can reduce activities which harm the environment or ourselves like carbon emissions or smoking

Political parties have spent the last decade talking a lot about governments spending less (aka austerity). This 2019 election is different. Both Labour and the Conservatives are promising to increase government spending.

We've made this guide to help you make sense of the debate and work out where you stand.

The Conservatives want to up spending by £45 billion a year. Labour is pledging to spend £153 billion more each year.

HOW DOES OUR GOVERNMENT GET MONEY?

3 ASSETS

WHAT? Assets are things of value which are controlled by somebody. Governments have assets ranging from land to property to roads to railways to gold and money, and they can provide a source of income through being rented or sold.

The government currently owes **£1821bn**

What's the difference between debt and deficit?

Debt is how much the government owes. Deficit is the gap between how much a government receives and how much it spends in a year. It's easy to get them confused!

2 DEBT

Is government debt good or bad?

BAD

- Have to spend billions of pounds on interest payments
- Risk government is seen as financially irresponsible
- Risk future generations are left paying bills they didn't vote for or benefit from
- Can reduce consumption and investment in private sector by increasing the cost of borrowing and making it relatively better to save

GOOD

- Can invest in things now that could have big benefits for future generations
- Can stimulate areas of the economy which would benefit from government spending
- And can do this even in economic downturns when tax receipts are low

Government spending this year is predicted to be **£841bn**

ECONOMY'S MANIFESTO

All communication around the economy should:

- 1) Be clear and understandable, with jargon limited and explained
- 2) Scrutinise arguments and evidence, because there is no one right answer
- 3) Be a conversation everyone is part of

What do we mean by net debt and net worth?

Net worth is the wealth you (or a government, or a company) have if you add up all your assets and minus all you debts. Net debt is how much more debt you have than cash to pay it with (assets that can't easily be turned into cash don't count). This election both the Conservatives and Labour have said they will focus more on building up net worth.

What's the difference between government and personal debt?

Governments don't go bankrupt like people do. They can be in debt forever because it can be paid for by future taxes and the creation of money (see top left). The risk is that people could lose confidence in the government and value of the pound.

What is consumption and how is it different from investment?

When economists talk about spending, including government spending they often split it into things that provide benefits now (consumption) and things that provide benefits later (investment).

