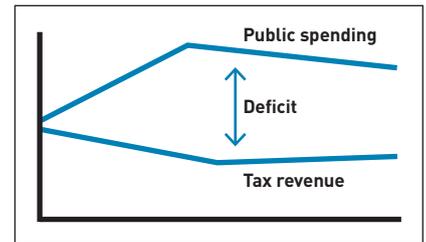


5 things you need to know about the deficit

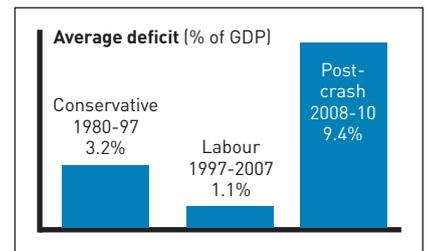
1 The deficit is not the same as public spending

The deficit is the gap between **public spending** (the amount the government spends) and **tax revenue** (the amount it raises in taxes). So public spending isn't the only thing that matters: if tax revenue falls, the deficit increases. That's one reason why tax avoidance and evasion are so bad for the economy.



2 The deficit has increased because of the banking crash and recession that followed

Before 2008, the Labour government was running a relatively small deficit – less than that of the previous Conservative government. But the banking crash and recession caused **tax revenue to go down** (for instance companies made smaller profits and so paid less corporation tax) and **public spending to go up** (people lost their jobs and so received more benefits).



Source: <http://news.bbc.co.uk/1/hi/8636701.stm>

3 Cutting spending can cause tax revenue to fall

Cutting public spending puts public sector workers out of work. This means they no longer pay taxes or spend as much in local shops and businesses, worsening the recession. So cutting the public sector has a **knock-on effect on the private sector** – and the result is the government collects less of the taxes that would help cut the deficit.

4 Spending cuts can cause public spending to rise

Yes, you read that right. Governments can choose to cut, say, youth centre workers or carers for elderly people. This is called **discretionary spending**. But by putting people on the dole such cuts cause spending on unemployment and other benefits to rise. This is called **mandatory spending** and is determined largely by the state of the economy, not Treasury targets. Instead of paying people to provide useful public services, we pay out more in benefits.

5 Economic growth can shrink the deficit

Ultimately we need economic growth to reduce the deficit. Otherwise we are stuck in a **vicious circle**, with more cuts leading to lower tax revenue and higher spending on benefits – which leads to calls for yet more cuts. But right now there is **little demand** in the economy and companies are **unwilling to invest**. The only way out is for government to fill the gap, by switching from cuts to investment.

FALSE ECONOMY is the website for everyone concerned about the impact of the government's spending cuts on their community, their family or their job.

FalseEconomy.org.uk