Join the FIGHT BACK against the cuts

BOURNEMOUTH & POOLE ANTI CUTS COALITION

WE WILL NOT PAY FOR THEIR CRISIS

We reject the cuts as malicious ideological vandalism hitting the most vulnerable the most hardest - Join us in this struggle

Countering The Cuts Myth

After the last crisis of this scale, when public debt was something like three and a half times the size it is today, we created the Welfare State and the NHS

Sign up for our mailing list: **info@bpacc.co.uk**
Visit our website: **bpacc.co.uk**
Join our Facebook group: **www.facebook.com/groups/BPACC**
Follow us on Twitter: **twitter.com/bpaccdotnet**

Printed by BPACC, 238 Holdenhurst, Bournemouth

MYTH Government debt is the highest it's ever been

The UK's government debt is at around 70 per cent of GDP (the total amount of goods and services produced in one year). That is certainly high, but it is far from unprecedented. Govt debt never fell below 100 of GDP between 1920 and 1960. It is only recently that it is normal to think of government debt being stable at around 40 per cent of GDP. After World War II, Govt debt reached 250% of GDP, the result of a 'once in a generation' economic crisis. It is arguable we are now living through a similar momentous crisis.

MYTH The UK's debt crisis is one of the worst in the world

Just as the current level of govt debt is not unprecedented, neither is it substantially higher than that of other countries. IMF data shows the UK has the lowest govt debt as a proportion of GDP among the G7 countries. Much has been made of the previous govt's borrowing. They say that before the spending to stabilise the financial system, public debt was high. But again, IMF comparisons of the level of public debt prior to 2007 showed the UK in a much better position than many comparable countries.

MYTH Government debt is 'unsustainable'

The sustainability of govt debt is not just dictated by its size, but by its make up. The nature of the UK's debt puts us in a much stronger position than other countries. The vast majority – about 70 to 80% – is held within the country. And the UK's debt stands out among international comparisons as being much longer term - 12 years on average. This means that the UK has to ask the financial markets to refinance its debts much less frequently, making it less vulnerable to short-term speculative pressures and much more able to continue to finance its debts on a sustainable basis.

MYTH The government shouldn't get into debt, just like your own household

This overlooks the fact that, for the past 30 years, govts have positively encouraged households to get into debt. In fact, it can be prudent for households to take on debt – particularly if they are borrowing to pay for something (a house or educational qualification) that might reasonably be expected to improve the household's income in the long run. In just the same way it is often sensible for govts to take on debt to pay for investments (such as housing or transport infrastructure) that will make the economy work better and so pay for themselves over the longer term. But the public economy is also different from the household economy. What might make sense for a household could, for the govt, deepen a recession. When times are hard, households tend to tighten their belts – reducing their spending and borrowing. But if everyone does this at the same time, the effect is counterproductive: total demand for goods and services falls, which makes it harder for businesses and individuals to generate an income, and we all end up worse off. This is exactly what is happening now, which is why it is essential for the govt to compensate for households' reluctance to spend and invest.

MYTH Cutting public spending will help us avoid economic disaster

There are four main components of economic growth: (1) exports; (2) investment; (3) household spending; and (4) govt spending. Over the past two years, govts around the world have stepped in to bridge the gap in the first three by providing debt-financed public sector stimulus packages. There is no evidence that the private sector or households are ready or able to step up to fill the gap. As such, any austerity programme prematurely removes the foundations of the recovery and, as we are now seeing, leads to a 'double dip' recession. This is disastrous, not just for growth, but also tax receipts and the capacity of the state to reduce the deficit and government debt. How will that help to stabilise the world economy? How will it deal with the frequent, persistent and cumulative financial crises that are endemic to it, or overcome the pressing resource and environmental constraints that are so clear for all to see? The economic crisis was a golden opportunity to move toward a more economically, socially and environmentally sustainable national and international economic system. We are about to squander a once-in-a-generation opportunity for progressive change – unless, that is, we organise and campaign for an alternative.

Source: Red Pepper in association with the Other TaxPayers' Alliance