Austerity is a political choice – not an economic necessity

Dennis Leech
Professor of Economics Warwick University (retired)
This presentation can be downloaded from
http://blogs.warwick.ac.uk/dennisleech/
Some popular economic myths

1. ‘Government debt is too high`

2. ‘Debt level imposes an unaffordable interest burden`

3. ‘Governments should always balance spending and taxation`
Some popular economic myths

4. 'Government deficits mean borrowing and that imposes an unfair burden on our children`

5. 'Taxes and government spending should be low to promote growth`
Myth 1

‘Government debt is too high`

… literally true as £pounds but meaningless as economics
Myth 1

‘Government debt is too high`

...media distortion misleads and makes austerity cuts seem necessary
Media version: public debt according to BBC

£1.8 trillion
And just to make that perfectly clear ...

Wow – that’s a huge number!
And just to make that perfectly clear ...

How will we pay it back?
Myth 1: ‘Government debt is too high`

Debt figure is just a number

It needs context

Compare it with … size of economy
How big is the UK economy?

Yardstick GDP: Gross Domestic Product

How much we produce in the UK

Myth 1: ‘Government debt is too high’
Myth 1: ‘Government debt is too high`

GDP: ‘Market value of all goods and services produced within the country by both the private sector and the public sector`

GDP was £2,020,140 million in 2017
So to put that in context, Kamal,

last year’s GDP was £2.0 trillion
Economic yardstick is the debt/GDP ratio

Currently debt is 85.8% of GDP

Is that too large?
Myth 1: ‘Government debt is too high`

Look at this three ways:

1. Historical
2. International
3. In terms of creditors
Myth 1 ‘Government debt at record levels`

Is debt too large historically?

85.8% No!
Myth 1 ‘UK government debt higher than others’

Is UK debt too large internationally?

No!
Myth 1: ‘Government debt is too high’

Who is owed this money?
Mainly ourselves!
And government itself!

Source: John Weekes, SOAS
Myth 2: ‘Debt interest is a huge burden`

Annual cost of servicing (paying the interest) the public debt in 2018 estimated at around £48 billion

(roughly 4% of GDP)

Is this a burden?
Myth 2: ‘Debt interest is a huge burden`
Myth 3: ‘Government budget should balance`

Actually balanced budgets rare

Governments nearly always run a deficit
Deficits and surpluses since the War

Nearly always a deficit.
A deficit is not necessarily a problem

In fact can be beneficial
Myth 4: ‘Deficits increase the debt burden`

Is a deficit a problem?

‘It increases the debt and obviously that puts a burden on future generations` 

False
Myth 4: ‘Deficits increase the debt burden`
Myth 4: ‘Deficits increase the debt burden`

Deficits can reduce debt burden: how?

Public spending increases GDP in 2 ways
1. increased public sector output
2. increased private sector output
Myth 4: ‘Deficits increase the debt burden`
Myth 5: ‘Low taxes promote prosperity` - False
This presentation can be downloaded from

http://blogs.warwick.ac.uk/dennisleech/