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Basic budget blunders [1]

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Worryingly many commentators repeatedly make two basic budget blunders. Firstly, ?deficit? and ?debt? are not the same. Secondly, this government is not cutting spending. Neither point is original. Both should be simple to understand. Given consistent misinformation these both need clarification.

Debt is an obligation owed by one party (the British Government, i.e. the taxpayer) to a second party, the creditor (owners of British government bonds). The national debt is the total amount our government owes. It is different from the budget balance. That is the gap between what the government spends and what it receives. The budget is in deficit when the government spends more than it receives.

So what are the numbers? According to latest estimates from the Office for Budget Responsibility [3], public sector net debt for 2012-13 is projected at £1189 billion. By 2017-18 this is expected to reach £1637 billion. So when David Cameron said earlier this year, ??this government has had to make some difficult decisions, we are making progress. We are paying down Britain?s debts?, he was wrong. No. We haven?t paid down debt and will owe more.

It is the deficit that is projected to fall. For 2012-13 the deficit is forecast at £120.9 billion. However, the coalition no longer expects to meet pledges to balance the budget. Even by 2017-18, government will spend more than it takes in (with an estimated £43 billion deficit). High deficits will remain and the Government will add to the amount we owe every year.

Surely we've been cutting spending? No, again. The OBR neglect to mention how much the government spends for most of their report. Yet on page 123, they note spending is rising. For 2012-13 they forecast government spending of £673.3 billion, increasing to £765.1 billion by 2017-18. So in absolute terms expenditure is rising, not falling. Even accounting for inflation (using their inflation projections) expenditure rises significantly. The Coalition have only reduced the amount by which government planned to grow expenditure. Nevertheless, this brings pain, from pay freezes to programme closures, because budgets assumed even more profligate spending. Now that expenditure is growing more slowly than previously planned, some old commitments have lost out to new sources of expenditure.

Debt is rising, expenditure continues to outstrip receipts, and the Government is increasing not shrinking spending.

James was a founder of the Liberty League[4], who are hosting the upcoming Freedom Forum[5].

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