

## Government deficits are not failure

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This is the transcript:

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We are constantly told that a government deficit is proof of economic failure. That claim is repeated by politicians, commentators, and most economists, but it is wrong.

The truth is simple. A government deficit is often exactly what the economy needs. In fact, the deficit tells us something very important about how money is flowing in the economy.

So the real question is not, is there a deficit? The real question is, why is there a deficit, and what does it mean?

A government deficit simply means the government has spent more into the economy than it has taken out in tax. This is not inherently bad. In fact, most of the time it's absolutely essential because when a government runs a deficit, it is adding money to the private sector.

It is supporting demand in the economy, and it is often compensating for private sector weaknesses. In accounting terms, the government deficit is somebody else's surplus, and that someone else is households and businesses.

There are many times when deficits are exactly the right policy for a government. For example, during recessions, when private sector spending collapses, and when government needs to invest in infrastructure, health, or education, and when societies face crises such as financial crashes, pandemics, or climate change.

In those situations, deficits stabilise the economy. Trying to eliminate deficits at those moments does the opposite. It cuts demand, weakens public services, and pushes economies deeper into crisis.

The real danger then is not the deficit; the real danger is political obsession with eliminating it, because when governments treat deficits as failure, they impose austerity. They cut investment. They weaken the services that people depend upon, and the result is predictable. We get weaker economies, greater inequality, and poorer public infrastructure.

So let's be clear, the deficit is not evidence of failure. Sometimes, evidence that the government is doing exactly what it should be doing, which is to support the economy and society when it needs it most.