

## Why government surpluses can crash the economy

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<https://www.youtube.com/watch?v=lecTUfYQEWE?si=C2n8Lkju1T3YmaQL>

This is the transcript:

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Politicians love to talk about government surpluses as if they are something that is proof of their prudence, their discipline and economic competence. But that claim misunderstands how the economy actually works because when a government runs a surplus, something else must happen in the economy, and that is that someone else must run a deficit. In other words, they must borrow.

This is not about ideology. This is about basic accounting. This is always true, and it tells us something that politicians rarely admit. They will not admit that when a government takes more out of the economy in tax than it has spent back in, it might be running a surplus, but at the same time, the government is shrinking private sector wealth.

When the government runs a surplus, households and businesses must spend more than they receive from the government. In other words, they must go into debt. This is not theory. It is the fundamental accounting relationship between the government sector, the private sector, and the rest of the world.

One sector's surplus is another sector's deficit. This is why sustained government surpluses are very often dangerous and frankly should not be run because they force the private sector to borrow, and private sector debt can be dangerous, as history tells

US.

Private sector debt creates:

- \* Financial instability.
- \* Asset bubbles, and even
- \* Economic crises.

We saw this before the global financial crash in 2008. The government in the UK ran a surplus before that event happened, but those surpluses were mirrored by exploding private debt, and then we had the collapse.

So let's be clear. A government surplus is not necessarily virtuous. A government surplus may simply mean households are borrowing too much, businesses are taking on too much debt, and financial fragility is growing in the economy.

The real goal of economic policy should not be chasing surpluses. It should be maintaining a stable and sustainable economy, and sometimes that means governments must run deficits so that households and businesses do not have to do so instead.

Let's get over this paranoia about surpluses. Governments that want to grow the economy and who need a little bit of inflation must grow their money supplies, and the only way they can do that is by running a deficit. Let's talk about reality.