

Deficit spending is not economics, mislearned accounting and mathematics



In my pre-primary learning years, I remember we would use tally sticks to demonstrate basic addition, subtraction, and multiplication. When you had no single tally stick, it was only possible to add and not subtract as the answer to ‘zero minus one’ was always ‘impossible’. And it was practical to see that if you didn’t hold a single tally stick, it was never possible to subtract (or spend in the case of money). As I went to upper primary and beyond, that truth phased out as we began to mislearn that you could subtract from zero and hold a debt. And that meant a possibility to have less or nothing and spend more in debt.

Today, most governments across developed and underdeveloped economies have mislearned this in public finance, spending deficits year after year as governments always almost overspend their budgets. Government spending is no longer censored by the amount of taxes they can collect, and not even by their ability to borrow as governments excessively borrow without concern. The average deficit in the United Kingdom over the period 2015 to 2024 was 3.7% of the GDP, £131 billion in 2023/24. In the United States, the annual federal budget deficit approximated 6.7% of the GDP, about \$1.833 trillion in FY 2024. Uganda’s government budget deficit over the period 2015 to 2024, averaged about 4.1% and continues to sustain budget deficits which are closed out by deficit spending.

It is important to remember that deficit spending comes from government overspending, blowing up National Debt, and future interest payments on service of Debt. It should become even more worrying if you have to think of interest payments from National Debt continuing to consume a larger proportion of tax revenue year on year that would otherwise be put to several other productive sectors. Government deficit spending kills future generations, as lower private capital is allowed to form.

J. Milei’s presidency in Argentina delivered a master class on how to cure deficit spending by reducing government size and spending, fiscal responsibility specifically aimed at balancing the budget over time. The quick reduction in public spending helped Argentina swing from a fiscal deficit – the difference between the government’s spending and income - of 2tn pesos (\$120bn; £93bn) in December of last year to a surplus of 264.9bn pesos in April. The Trump administration, under the D.O.G.E, is expected to deliver in the same footsteps of reducing government size and cutting government spending.

In summary, deficit spending while justified by inconsistent revenue streams to run short-term government programs, can be way more harmful as it gets perpetual, National debt grows, general tax revenue to rising interest payments, and future generations get impoverished. Slashing the size of government and its spending is the ultimate cure to government deficit spending.

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