Los impactos de los presupuestos en el déficit público

In today’s class, we will discuss the general state budgets and public deficit. But before we begin, let’s recap what we have learned in previous classes. We have seen that the government, like a family, has both income and public expenses. When the income is higher than the expenses, the family saves, but when the expenses exceed the income, borrowing becomes necessary.

Definition of State Budget

The real state budgets refer to the planning of all public income and expenses that the government anticipates for a year. By subtracting the expenses from the income, we obtain the budget balance. There are three options:

- If the income is higher than the expenses, there is a public surplus, which means the government is saving. This surplus can be used for increased spending in the future.
- If the expenses exceed the income, there is a public deficit, and the government will need to borrow. In the future, when the borrowed money needs to be repaid, there will be less money available for spending.
- If the income is equal to the expenses, there is a budget equilibrium.

Out of these three situations, a public deficit is the most concerning. When the public expenses surpass the income, the government has to borrow money. This is a negative situation, and when a country has a public deficit, alarm bells start ringing. We then ask ourselves, who is to blame for this deficit?

Causes of Public Deficit

There are mainly two possibilities: political decisions and economic crises. Some political parties advocate for increased intervention, aiming to reduce inequalities and provide more assistance to the disadvantaged. When these parties come into power, they tend to increase expenses, which can lead to a public deficit. Another crucial factor is the arrival of an economic crisis, like the COVID-19 pandemic. During these crises, the government’s expenses skyrocket due to increased unemployment and the need to provide more aid. At the same time, the public income decreases as people have less money to pay taxes. When expenses rise, and income falls, a public deficit emerges.

Therefore, a public deficit can result from either political decisions to increase spending or the combination of political decisions and economic crises. Recognizing the significance of a public deficit, countries that adopted the Euro put into effect the Stability and Growth Pact. This pact established a maximum tolerated public deficit limit of 3% of GDP. The aim was to prevent a country with a large deficit from borrowing excessively, which might negatively impact other countries.

Public Deficit in Spain

In Spain, the situation was relatively stable at the beginning of the 2000s. Not only did we not have a public deficit, but there were also several years of public surplus in 2005-2006, allowing the government to save money. However, with the onset of the financial crisis in 2008, the public deficit increased significantly due to both political decisions and the crisis-induced increase in expenses. From 2009 onwards, we experienced several years with deficits well above the 3% limit, with some even exceeding 10%. After the crisis subsided in 2014-2015, the situation improved, and in 2018 and 2019, we were once again below the 3% target, indicating a favorable situation.

Unfortunately, with the arrival of the COVID-19 crisis, the same pattern occurred again. Expenses skyrocketed, and we now have an extremely high public deficit in 2020, exceeding 10%. This brings us to the question of what happens when a country, like Spain, experiences consecutive years of public deficits and accumulates a significant amount of borrowed money. This is what we refer to as public debt, and it is a major concern for many countries, including Spain.

Public Debt

If you want to understand why public debt is so worrisome, you'll have to join us in the next class!

Summary

Situation	Definition
Public Surplus	Income > Expenses, government saving
Public Deficit	Expenses > Income, government borrowing
Budget Equilibrium	Income = Expenses

FAQs

Q: What is a public deficit?

A: A public deficit occurs when the government's expenses exceed its income.

Q: What causes a public deficit?

A: A public deficit can result from political decisions to increase spending or from the arrival of an economic crisis.

Q: How does public debt impact a country?

A: Public debt can be a significant concern for a country as it accumulates borrowed money over time.

Q: What is public debt?

A: Public debt is the accumulated borrowed money of a country.

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