



The Government has a budget deficit problem.

A budget deficit arises when government spending is greater than government income. The Government therefore has to finance the difference.

In 2003–2004 the budget deficit was £37 billion but this was predicted to grow to £42 billion in 2004–2005.

**Your task**

As an economist working for a national newspaper, you have collected the information given to you in the Information Leaflet.

Using the Information Leaflet, together with your own knowledge and understanding of economics, answer the questions which follow. Use your answers to help you recommend a solution to the budget deficit problem.









**NO QUESTIONS APPEAR ON THIS PAGE**

**TURN OVER FOR THE NEXT QUESTION**

**Turn over ►**













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Study **all** the information before you begin your task.

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**Item A**

**The Government's budget deficit 2003–2004**

Quote from a government minister:



## Item B

### The Economy

| Macroeconomic indicators | Figures for 2003–2004  | Predicted figures for 2004–2005 |
|--------------------------|------------------------|---------------------------------|
| Economic Growth          | 2.1%                   | 3 – 3.5%                        |
| Consumer Prices Index*   | 2.5%                   | 5%                              |
| Unemployment             | 1 million              | 2 million                       |
| Balance of Payments**    | –£25 billion (deficit) | –£35 billion (deficit)          |

\* Consumer Prices Index is the replacement for the Retail Prices Index and it measures inflation.

\*\* Balance of Payments – a deficit exists when the value of imports is greater than the value of exports.

## Item C

### The Chancellor's Budget 2003–2004

| AT A GLANCE  |   |   |
|--|---|---|
| <ul style="list-style-type: none"> <li>■ Government borrowing rises to £37 billion this year, £10 billion more than forecast in April.</li> <li>■ Economy to grow 2.1% this year, 3–3.5% forecast for next year.</li> <li>■ Help for childcare schemes.</li> </ul> | <ul style="list-style-type: none"> <li>■ Extra £406 million to curb council tax* bills – still likely to rise by more than 8%.</li> <li>■ Additional £800 million to fund military operations in Iraq and Afghanistan.</li> <li>■ Tax breaks for 100 000 sports clubs.</li> </ul> | <ul style="list-style-type: none"> <li>■ Possible freeze on duty on spirits, eg whisky, gin.</li> <li>■ Bank of England given new 2% inflation target.</li> </ul> |

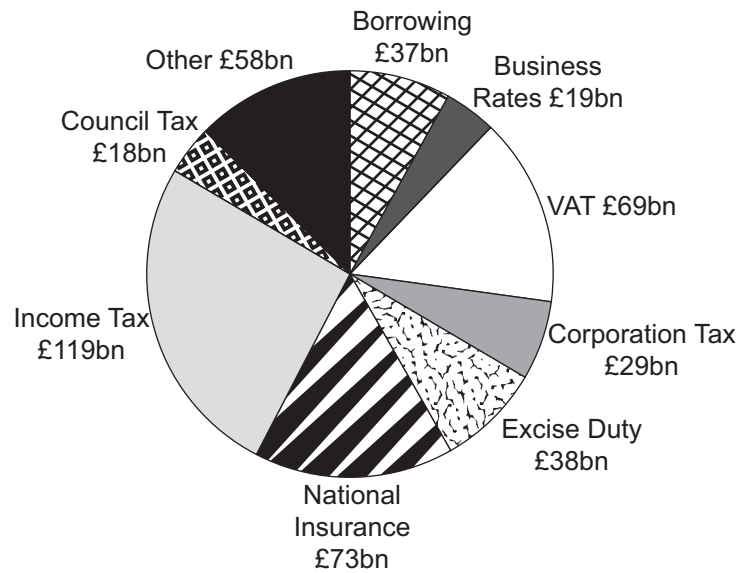
Source: adapted from the *Daily Mail*, 11 December 2003

\* Council tax is a tax paid by residents to the local authority.

### Item D

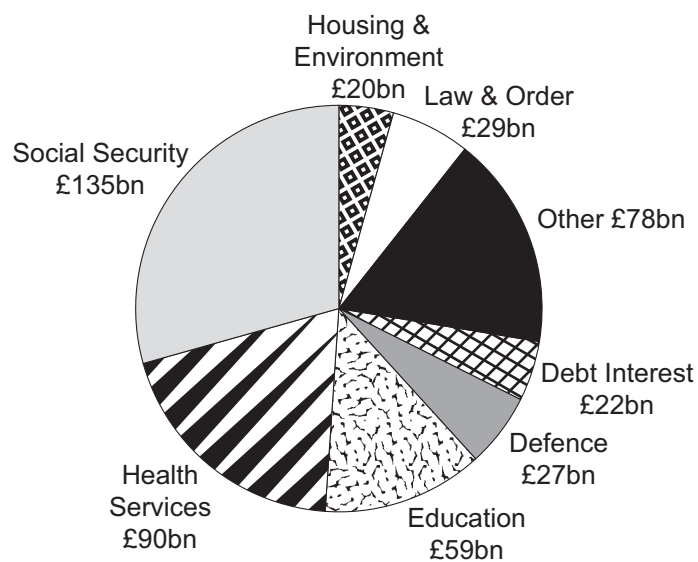
#### Where the money comes from and where it goes

##### Government income 2003–2004



bn = billion

##### Government spending 2003–2004



bn = billion

Source: adapted from the *Daily Mail*, 11 December 2003

Turn over ►

**Item E****Brown goes deeper into the red**

GORDON BROWN, the Chancellor of the Exchequer, moved to prevent further tax increases by adding an extra £10 billion to government borrowing and curbing big increases in council tax.

In his pre-Budget report, the Chancellor surprised the City by disclosing that borrowing this year would rise from the £27 billion he forecast in April to a record £37 billion. Some experts said that the Government would be forced to raise taxes after the election, expected in 2005, to make up the difference between income and spending plans.

It was argued that the increase in borrowing was caused by lower than expected tax receipts and the Iraq war. Mr Brown announced an extra £800 million for operations in Iraq, taking the total amount to be spent in Iraq and the war on terrorism to £6.3 billion.

Those who disagree with the Chancellor said: "This is the pay now, pay later Chancellor: after 60 tax rises and at a time when he says the economy is doing well, why is he borrowing £37 billion this year and £120 billion over four years? Borrowing now will have to be paid for later".

Most economists think that the Chancellor will have to raise taxes on consumers and businesses very soon.

*Source:* adapted from *The Independent*, 11 December 2003

**Item F****Future government spending plans revealed for 2004–2005**

Government expenditure on education will rise to £63 billion while that on defence will fall to £23 billion and the same pattern will continue in the following year.