

Government Spending (G)

Government spending (G) is total government expenditure on goods and services.

For example 19% of all public spending in 2026 will be allocated to healthcare (ageing population!)

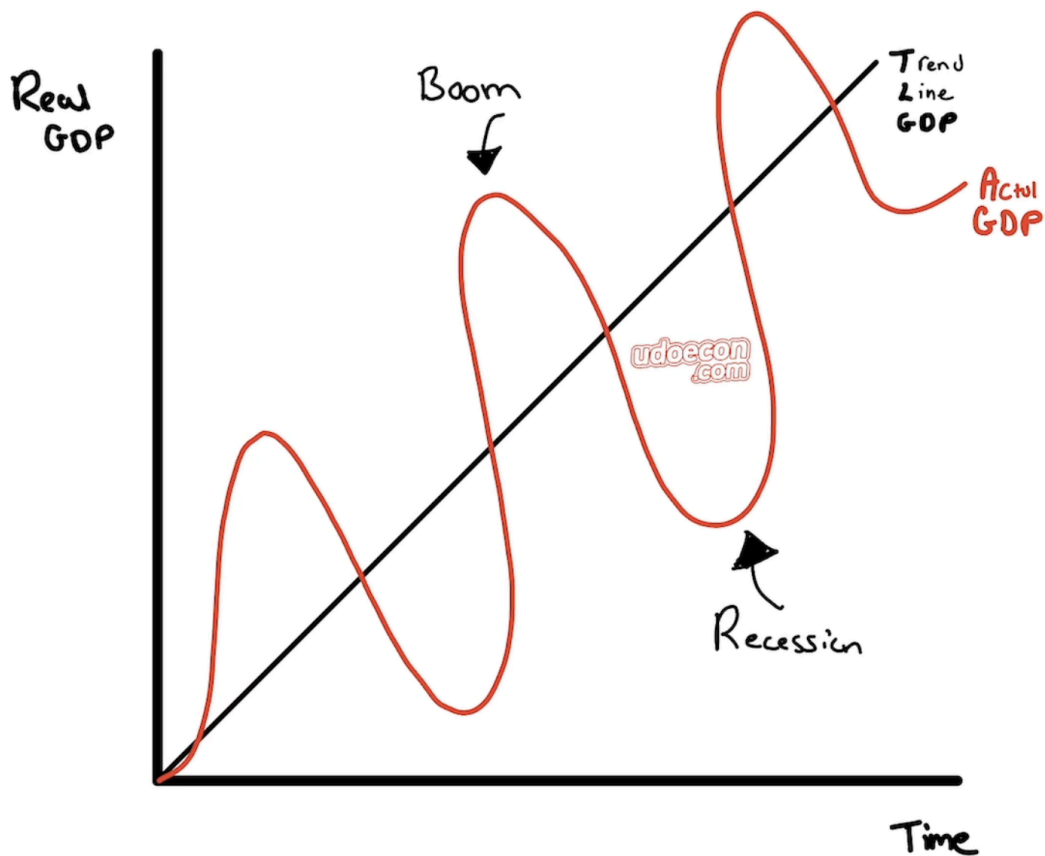
What makes government spending rise or fall?

The trade cycle (business cycle)

Government spending changes automatically as the economy moves through booms and recessions.

In a boom (positive output gap), unemployment tends to fall, so the government spends less on benefits such as job seekers allowance. In a downturn, unemployment rises, so welfare spending increases.

A boom can also raise tax revenues, giving the government more scope to increase spending or reduce debt. In a recession, weaker tax revenues (less employed thus lower income , vat, ni tax etc) make it harder to fund higher spending without borrowing.



Fiscal policy decisions

Fiscal policy can be used deliberately to change the level of government spending.

A Keynesian approach usually means increasing government spending in a downturn to boost aggregate demand. In a boom, it may mean reducing spending to help prevent overheating.

Changes to government spending are typically announced through the government budget. This means G often reflects the government's wider plan for the economy and public services.

Government priorities

Government spending is closely linked to what the government is trying to achieve.

If a government prioritises higher quality public services, it may increase spending on healthcare, education, and social protection. These are some of the UK's biggest areas of government spending.