

CITY A.M.

Long-term economic growth is a prize both parties should be fighting for

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Ah yes, post-Budget week.

That time when a modest tax change here or a spending announcement there generates reams of analysis about who's been made "better off" or "worse off" at the stroke of the chancellor's pen. When, for a second, the decision to try to implement VAT on warm takeaway foods or announce a few hundred million on electrifying a rail line will seem of the utmost importance to the welfare of the nation.

Budgets matter to us as individuals, of course. They affect us financially, shape political narratives, and determine the broader near-term economic direction of the government.

Yet the whole circus nowadays highlights a huge problem with our politics: the obsessive focus on distribution and the short term – who's up and who's down – rather than on long-term economic growth.

For years, Conservative chancellors have stood at the despatch box to announce weak sustainable growth forecasts for the economy, and then done little about it.

Yes, they have reacted with fuel duty freezes or targeted income tax breaks to leave more money in certain people's pockets, or tinkered with other taxes to raise revenues.

But while one can argue about the desirability of these, or indeed more NHS or mental health spending, they are largely distributional issues. They do not really affect the dynamic innovation that lifts living standards sustainably.

In his wonderful new book *Stubborn Attachments*, the George Mason University economist Tyler Cowen persuasively argues that maximising the sustainable growth rate of the economy should be our real societal objective.

Arguing that we should put strong weight on the welfare of future generations, he shows the many benefits of faster growth over long periods, including improved health, greater happiness, welfare-enhancing spillovers to poor countries, and the spread of pluralistic values.

Significantly, the power of compounding means that raising the growth rate can, over time, improve living standards by orders of magnitude greater than any one-time redistribution can achieve.

By sustainable growth, we don't mean the sugar rush GDP increase you can get from more temporary government spending, nor some central government five-year plan that raises growth for a while but at the expense of the environment, liberty, or democratic stability.

It's not GDP at all costs, but instead about maximising what Cowen calls "wealth plus". This includes measured economic output, but also places value on leisure time, the environment, and household production. It is better thought of human wellbeing, or what economists call "economic welfare".

This might all sound welcome so far. But a more relentless focus on growth is not a free lunch in the very short term. Prioritising growth would mean creating and supporting institutions that deliver it, while being much more agnostic about the small things that concern politics today.

The implications would be much more public and private investment in science, technology and R&D, but probably far less generous healthcare spending and money transfers to the elderly. Taxes would be reformed in a pro-growth way, with much less concern to perceived fairness. Land-use planning laws would be liberalised to allow the development of clusters and agglomerations.

And though most changes would be institutional, with government spending supporting growth, more resources would be devoted to investment rather than day-to-day spending programmes.

That doesn't mean that there would be no welfare system. But in Cowen's view, redistribution should primarily be about supporting growth – transferring resources to the extent necessary to maintain political acceptance for pro-growth institutions. That there just happen to be differences in wealth or income levels (inequality) is not justification enough to tax and transfer in ways which might undermine incentives.

In the short term, then, a pro-growth mindset would come at a cost. Some of the current things that the government does, based on commonly accepted values, would change. But so large are the potential gains that there really should be a high barrier to giving them up for other objectives.

Increasing the income per capita growth rate from 1.5 to two per cent per year means being seven times better off after a century, rather than four times better off. If you could increase that to three per cent a year, we would be a whopping 19 times better off over the same period.

Given how even modest changes in growth can massively affect living standards, it's really remarkable how little we discuss it, and what we might do to improve it. Politicians are bound by the political cycle, of course, which creates incentives for short-termism, and affecting growth is uncertain and difficult.

But right now, neither party seems to be thinking about it much at all. Given the potential rewards, this amounts to wilful neglect.

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