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The US and UK are failing to confront the long-term drivers of explosive debt growth

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The media will pore over the plethora of announcements made – fiddly tax changes here, growth forecast revisions there. But this short-term focus misses the real policy story of the post-crisis period. The political class is failing to address our long-term fiscal challenges, with its spending choices arbitrarily reshaping the British state while entrenching growing welfare expenditure on politically powerful groups.

This dawned on me last week when watching President Donald Trump outline the broad contours of his budget plan to the US Congress. “The Donald” wants to boost military spending by \$50bn, paid for by discretionary spending cuts in a range of departments.

Though he alluded to a desire to reduce the public debt, he has committed to leave untouched its key long-term driver: entitlement programmes, such as Social Security and Medicare, which are set to become ever more expensive given an ageing population. Coupled with his wish for substantial tax reductions and largesse on infrastructure spending, the already significant 2.9 per cent of GDP federal deficit will likely widen. This will exacerbate the dire outlook for long-term debt, which is already forecast to explode unsustainably in the coming decades.

The UK government is more fiscally austere in its short-term ambitions. Since 2010, Conservative-led governments have actually increased the tax burden, with public sector receipts now at their highest proportion of national income for 30 years. Overall government spending has been held pretty much constant in real terms, with growth reducing it as a proportion of GDP. The deficit has fallen slowly, and the stated aim is still to eliminate it, albeit at a glacial pace. It is projected to be 2.9 per cent of GDP this fiscal year, falling to 0.7 per cent of GDP by 2021-22. Nevertheless, if the forecasts are correct, a low deficit with sustained growth will see the debt burden fall for a time before rising again in the 2030s.

The key difference then is in the aim over the next four years: for the Conservatives, fiscal retrenchment is still a priority; for Trump, it’s all about short-term growth. But the irony is that within those ambitions, the two governments’ priorities are pretty similar. And both governments’ choices are storing up problems for the future.

Since 2010, the UK Conservatives have also ring-fenced major “entitlements”. NHS funding has been by-and-large protected in real terms. The state pension has actually been made more generous with the economically illiterate introduction of the so-called “triple lock”, which if left unchecked will ratchet up spending further and further. At a time when we should be looking to future-proof health and pensions by shifting towards pre-funded models and personal savings, the UK government, like its US counterpart, is simply keeping calm and carrying on.

At least part of the reason for this is the support that both the Conservatives and Trump have received from older cohorts of the electorate. Row back on promises not to touch Social Security or the state pension and other benefits, and it is feared that the wrath of the electorate will be felt, even if reforms are only outlined now for the distant future. But on current policies, the paths taken by both countries will wreck the long-term public finances. It’s worth noting too that these policies will become even more unsustainable if there are active efforts to curb working-age migration from EU countries or, say, Mexico.

On top of this, like Trump, the Conservative government has in this Parliament committed to higher infrastructure and military spending. The effect of all this protection and expansion of certain budgets is that the remaining functions of government have to be cut in a fairly arbitrary way to meet any given spending target.

Already in the US you can feel that there will be substantial opposition and anger if anti-poverty programmes become the focus of cuts, just as a huge question mark around fairness hangs over the Conservatives’ willingness to cut further into the working-age welfare budget.

No doubt in both cases intelligent savings could be made and programmes trimmed or abolished as assessed on their merits. But the cause of the arbitrariness is the strategy: an obsession with insulating large parts of the welfare state and then hacking everything else to make what numbers are desired fit. For example, we heard last week that Trump would have to cut budgets like the State Department’s by as much as 37 per cent, just as the Conservatives have had to do for many unprotected departments in the UK.

We’re missing a substantial opportunity to both comprehensively reassess the role of government and to secure long-term fiscal sanity. Instead, both the US and the UK are becoming large entitlement states. Substantial cuts in other areas will be made, but the insignificance of this spending relative to the protected big ticket items means that the longer-term challenges remain. A lot of effort, but for what?

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