

2. Politics and Short-termism



“And when human politicians choose between the next election and the next generation, it’s clear what usually happens.” **Warren Buffett (1977)**

Many political issues require governments to try to balance the interests of people who are alive today with those of people who will be alive in the future. However, politicians are often accused of placing an excessive amount of focus on the short-term, at the expense of the long-term, to please their electorates and win votes.

The question therefore arises as to how long-term political leaders should look. If we choose to build a new bridge or airport should current generations bear all the costs of building it when future generations will also benefit? Or should the cost of building be borne by both current users and future users? A government could achieve that by borrowing part of the money to pay for the project, on the basis of a long-term loan to be paid some time in the future. But what about spending which benefits the current generation exclusively?

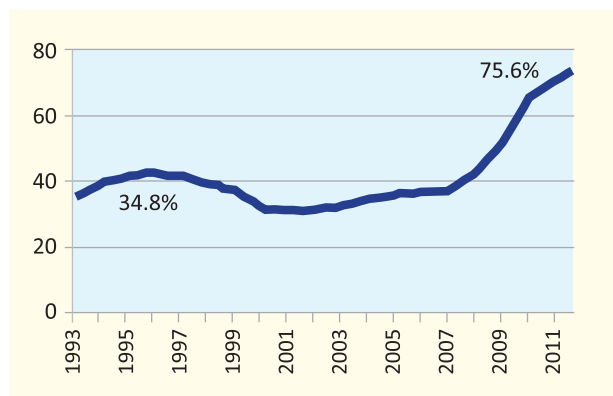


Fig. 1 UK net debt as a percentage of GDP, 1993–2011

Fig.1 shows how the national debt has grown as a percentage of the UK’s total economic activity or gross domestic product (GDP) during the last twenty years. The governments which have been in power over that period have allowed the national debt to rise; this has mostly been caused by borrowing money to finance current spending – including the NHS, welfare benefits, pensions and so on. One day a future generation will have to accept higher taxes and lower spending in order to pay this borrowing off. The alternative to borrowing is to make every

generation “pay its way” by raising taxes. The Coalition government’s austerity policies can be seen as the consequence of the last government’s borrowing to fund public spending.

Arguably, democracy encourages political short-termism because it rewards political parties for placing a narrow focus on what they need to do in order to win the next general election, rather than thinking about what impact their policies are likely to have over the much longer-term. Raising taxes, for instance, is never popular: it loses votes and loses elections. It is easier for governments to borrow money, to be paid off in the long-term, to fund spending in the short-term.

Pension promises are another good example of short-termism. The UK government currently has £5 trillion worth of pension liabilities (promises to pay people pensions once they reach a certain age). The cost of these is rising thanks to the fact that the post-war “Baby Boomer” generation is now entering retirement, and people are living longer in old age. Until recently, generous government pension promises have been based on the assumption that the economy – and with it the income from taxes – would grow enough in the future to cover the costs. But this has not happened; the forecasts have been wrong, and future generations will have to pay the price. At the same time, if a government can see that such pension promises are becoming unaffordable, it faces the difficult task of trying to reform them against the wishes of voters who will be adversely affected – notably the powerful, older segment of the electorate known as the “Grey Vote”.

So the incentives for the politicians are weighted very heavily towards pursuing short-term policies. What can be done to stop them?

Fortunately, there are several mechanisms which can compel governments to think about the future more systematically. National constitutions can bind governments to respecting the rights of both current and future generations. A surprisingly large number of countries have national constitutions which refer explicitly to protecting the rights of future generations. Often these concern the natural environment, over which – it can be argued – each generation has a clear duty of stewardship towards future generations. The German constitution, for example, contains the following clause: “Mindful also of its responsibility toward future generations, the State shall protect the natural foundations of life and animals by legislation and, in accordance with law and justice, by executive and judicial action, all within the framework of constitutional order.” In other words, if the constitutional rights of future generations in this area are infringed, the culprits can in principle be pursued in law.

Some other types of legal protection can be used to prevent excessive financial short-termism by today’s politicians, such as the USA’s debt ceiling, and the balanced budget amendments which exist in many European countries. These are methods of placing strict legal limits on how much debt governments are allowed to accrue and pass on to future generations, although their effectiveness has been called into question by economists.

Another strategy is giving some kind of parliamentary representation to future generations, not in the future but now. Hungary is a pioneer in this field: in 2007 Dr Sándor Fülöp was appointed to act as Hungary’s first ombudsman

for future generations. His role was to act as an advocate for the rights of future citizens within the legislative procedure of Hungary’s parliament, which included having the power to propose amendments to laws which may have threatened those rights. The United Nations is similarly considering establishing the post of High Commissioner for Future Generations.

One of the most long-term strategies a government can pursue is to set up a sovereign wealth fund (SWF). This is an investment fund into which the government deposits money on behalf of the nation during times of prosperity so that it can be called upon in the future if the country needs it for something. The money that goes into these funds often comes from a natural resources boom; for example, Norway has the world’s largest sovereign wealth fund, which is funded by the income from their vast oil and gas reserves.

Looking at the picture as a whole, unfortunately there appears to be far too much evidence of politicians only looking ahead as far as the next election, rather than thinking about the next generation. But the mood is changing, and the need to factor intergenerational concerns into policy-making is becoming increasingly accepted.

Sources:

- [“Deficit, national debt and government borrowing – how has it changed since 1946?”](#)
The Guardian Datablog

Recommended Reading:

- Willetts, D. (2010) *The Pinch*. London: Atlantic Books
- Howker, E. and Malik, S. (2010) *Jilted Generation: How Britain has Bankrupted its Youth*. London: Icon Books