



## THE FACTS POLITICS AND SHORT TERMISM



# Who is responsible for the future?

**Governments should try to balance the interests of people who are alive today with those of future generations. However, politicians often focus on short-term gains in order to please their electorates and win votes.**

The question therefore arises as to how far into the future political leaders should look. If we choose to build a new bridge or airport should the cost of building it 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?

Take the national debt, for instance. Recent governments have allowed the national debt to rise to over £1.8 trillion (in 2002 it stood at about one-fifth of this sum). This has mostly been caused by borrowing money to finance current spending – including the NHS, welfare benefits, pensions etc., as well as combating the post-2007 financial crisis. 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.

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.

### **PROMISES, PROMISES**

Pension promises are another good example of short-termism. The UK government currently has more than £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 retiring, 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, older segment of the electorate known as the “Grey Vote”.

### **SOLUTIONS**

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



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National constitutions can bind governments to respecting the rights of both current and future generations. A surprisingly large number of countries (for example, Germany) 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.

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.

Another strategy is giving some kind of government representation to future generations, with the aim of reviewing current policy and



legislation to assess the long-term impact, and to intervene if necessary. Hungary was a pioneer in this field, with the appointment of an ombudsman for future generations in 2007. In 2016 Sophie Howe took up the post of Future Generations Commissioner for Wales. With its “Future Generations Bill”, the UK parliament is currently considering an equivalent body for England, and the United Nations is similarly considering establishing the post of High Commissioner for Future Generations.

### **SAVING FOR THE FUTURE**

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.

Generally, politicians tend to look ahead only as far as the next election, rather than think about the next generation. But the mood is changing, and the need to factor intergenerational concerns into policy-making is becoming increasingly accepted.

### **Sources**

- Office for National Statistics (ONS): UK government debt and deficit: December 2018 (online)
- ONS: Pensions in the national accounts, a fuller picture of the UK’s funded and unfunded pension obligations, 2010 to 2015 (online)

### **Recommended Reading**

- Willetts, D. (2010): *The Pinch: How the baby boomers took their children’s future – and why they should give it back.* London: Atlantic Books
- Howker, E. and Malik, S. (2010): *Jilted Generation: How Britain has Bankrupted its Youth.* London: Icon Books