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Omens of a Downward Spiral

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British and U.S. governments compete in spending growth

LONDON.

Victoria Station - look around this 150-year-old rail station and you can see the rise and fall, and rise and now again decline of the British nation. Victoria Station is just a few blocks from Buckingham Palace and was for many decades the connecting station with the "Continent" (Europe) and the greater world, much like the large international airports of the present day. The kings and queens of England would greet the various European royals and other heads of state at Victoria Station.

Most of the parts of the station that were built in the late 19th century are still there - the great steel trusses and the Victorian brickwork. In its time, it was state-of-the-art, befitting what was the superpower of its day. After World War I, the station slowly was allowed to decay, as was the British economy. Beginning with the Thatcher reforms, England had a quarter-century run as the fastest-growing major economy in Europe, but still slower than that of the United States. Yet the basic structure of Victoria Station was only partially renovated during the good years, even though rail privatization and sleek new trains began to reinvigorate rail travel.

Victoria Station now resembles a poorly designed shopping mall where passengers can shop in small modern stores for the latest in consumer electronics or go to a variety of food servers - from unsightly and even somewhat dirty fast-food outlets to better-maintained, but not elegant, restaurants. Thus, the station is a rather unsightly hodgepodge of shops and trains. The neighborhood directly surrounding Victoria Station, however, has been almost totally rebuilt in recent years with tasteful, modern glass buildings and upscale renovations.

THE ROAD TO DECLINE British Government Spending as a Percentage of Gross Domestic Product	
1950	36%
1980	48%
2010 (Estimate)	53%

British government spending grew rapidly as a percentage of gross domestic product (GDP) from about 36 percent of GDP in 1950 to a peak of about 48 percent in 1980, which was one of the causes of the economic stagnation and seedy look of Victoria Station that persisted during that time.

In the early 1980s, Prime Minister Margaret Thatcher was able to reduce the relative size of government and the very destructive high marginal income tax rates. But government spending, as in the United States, has been allowed to drift higher during the past decade.

Professor David Smith, a former Bank of England economist and well-known commentator on the British economy, has forecast a rise in government spending to more than 53 percent of national income by 2010, the highest level since World War II. To fund this expanded public sector, net borrowing will increase from 8 percent of national income last year to more than 14 percent next year.

Mr. Smith argues, "There must be serious doubt whether deficits on this scale can be financed in a non-inflationary manner without very large capital inflows from abroad.

And it is hard to see why such inflows should be forthcoming now that the British economy has become so highly taxed by international standards."

If President Obama carries through on his threats to greatly increase U.S. taxes on carbon, etc.; allows the George W. Bush tax cuts to expire next year; and does not begin seriously to reduce spending, many economists will be able to say the same things about the U.S. economy next year that Mr. Smith says about the United Kingdom's economy today.

Mr. Smith also says: "The rise in nonproductive government spending as a share of GDP since 2000 is likely to have cut the U.K.'s sustainable growth rate by some 1.0 to 1.7 percent per annum."

The evidence shows that almost the identical economic slowdown has occurred in the United States over the past decade as government spending has increased as a percentage of GDP. Many studies have shown there are no discernible benefits in terms of objective measures of human welfare from raising the share of government spending beyond the 25 percent to 30 percent mark, yet Britain is slated to go over the 50 percent mark and America over the 40 percent mark.

The British and Americans seem to be in a suicidal race as to which country can put in the most destructive economic policies. The British are ahead at the moment. Unfortunately, there are no winners.

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