

[Britain in rehab](#) [1]

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The UK's anaemic 0.2% growth in the second quarter unleashed the predictable cries from the usual suspects for a Plan B to the government's fiscal austerity. Labour's Ed Balls rattled off his well-worn criticism that the austerity measures are too much too fast. Of course, none of these Plan B advocates acknowledges that government spending hasn't been cut at all yet. Just the opposite. For the fiscal first quarter (April-June), government spending, excluding interest payments, rose 2.6% to £143.7 billion.

To be sure, the growth figures were disappointing and the challenge for the government is to accelerate growth without losing sight of the two fundamental problems afflicting the British economy: over indebtedness by both the government and individuals and inadequate provision for an ageing population, again by both government and individuals. Until both are well and truly under control, no amount of dithering, forestalling or otherwise ignoring will restore consistent and productive economic growth.

The kind of rehab Britain needs isn't a quick short-term affair. For the serious addict, treatment starts with detox to flush out the poisons as only the first step to long-term recovery. As any reforming addict knows, rehab is an ongoing, if not perpetual, program if it's to have any long term success.

And for the UK as a whole, detox has only just begun - willingly or unwillingly, consumers are cutting back spending and boosting savings. The household savings ratio has bounced up to around 5% in the past year, more than twice the rate in the period preceding the onset of the financial crisis. Meanwhile, the UK government has also mapped out a long-term strategy to reduce borrowing. Again for its fiscal first quarter, central government net borrowing is down 2.8% on a year earlier.

It's not at all clear now whether individuals and the government are just sweating through this inconvenient detox stage in the hope of resuming their old ways as soon as decently possible. Successful longer-term rehabilitation means individuals sustaining a proper savings rate, weaning off housing as a substitute for productive investment and factoring in the increased pension and care costs from extended longevity. The government's role is to facilitate and incentivise such behaviour while destroying stockpiles of profligacy and dependency narcotics.

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