The argument about debt being a burden on future generations represents simple hypocrisy

Intergenerational justice is frequently invoked in contemporary debates about austerity, presenting it as necessary in order that we avoid leaving the younger generation with an unsupportable debt burden. Simon Wren-Lewis takes issue with this claim and contends that it is not that 'burden of debt' arguments are wrong, but that they are just not that important in our current context.

After the weekend march against UK austerity, I saw a government minister on the TV justifying their fiscal plans. One of the arguments he used was that it was necessary for the sake of our children. In these circumstances I can quite understand the urge to dismiss such arguments as invalid. Part of this urge comes from knowing that, in many cases, the argument about debt being a burden on future generations represents simple hypocrisy.

How do I know this? Because often exactly the same people championing austerity also argue that we cannot take action to reduce future climate change because the current costs will be too great. The UK government’s spin was that it would be the greenest government ever, but its policy is quite the opposite. The Republican Party in the US also resists any action to reduce climate change because of the current costs of doing so (at least when they are not denying climate change exists). The connection? Both issues involve trading off costs to the current generation (austerity, measures to reduce climate change) with costs to future generations (higher taxes, climate change itself). If you really believe that we must reduce debt right now (rather than after the economy has recovered) because of the impact debt will have on future generations, then you should also be doing everything you can right now to reduce carbon emissions.

But just because some of those who use the ‘we are doing it for our children’ argument to justify today’s austerity are doing so hypocritically does not mean the argument is wrong. I will not go over why it is not wrong again, except to stress a point I do not think I have made forcefully enough before. Arguments which look at the distributional implications of permanently higher government debt (debt incurred but never repaid), and then ponder whether real interest rates will or will not be higher than the growth rate, are analytically convenient but practically irrelevant. There are many strong reasons, which have nothing to do with intergenerational equity, why it would be foolish to not try and reduce the high levels of government debt we currently have when the economy recovers, and so additional debt issued today will need to be repaid (and not just financed) at some point in the not too distant future.

However, although concerns about intergenerational equity are valid, they are unlikely to be critical to the austerity debate. Probably most major economic issues involve some element of redistribution, and in practice the device of compensating the losers is not an option. Take monetary policy, for example. We currently have low real interest rates, which benefits some but harms others. Do we let the fact that savers are worse off as a result of this policy hinder the central bank from keeping interest rates low? Of course not.

In the case of reducing debt today through austerity, there are other factors which have distributional consequences going in the other direction. To the extent that we have austerity through lower investment in infrastructure or education, it is the young more than the old that will be hurt by this policy. As important, high unemployment among the young today can have lasting effects (pdf, HT TC) on their welfare, and their children’s welfare, as this study (pdf) shows. More generally, if DeLong and Summers are right that the hysteresis effects of austerity today are significant, then an entire future generation may be worse off as a result.

So it is not that ‘burden of debt’ arguments are wrong, but that they are just not that important in the
context of the current austerity debate. The welfare loss to future generations of delaying debt reduction by ten years is small relative to the massive loss of resources and welfare caused by austerity today. If we are worried about future generations, a far cheaper way of helping them is to take action to mitigate the impact of climate change.

This article was first published on Simon Wren’s Mainly Macro blog.

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About the author

Simon Wren-Lewis is a professor at Oxford University and a Fellow of Merton College. He began his career as an economist in H.M. Treasury. In 1981 he moved to the National Institute of Economic and Social Research, where as a Senior Research Fellow he constructed the first versions of the world model NIGEM. From 1988-1990, as Head of Macroeconomic Research, he supervised development of this and the Institute’s domestic model. In 1990 he became a professor at Strathclyde University, and built the UK econometric model COMPACT. From 1995 to 2006 he was a professor at Exeter University. He has published papers on macroeconomics in a wide range of academic journals including the Economic Journal, European Economic Review, and American Economic Review. His current research focuses on the analysis of monetary and fiscal policy in small calibrated macromodels, and on equilibrium exchange rates.

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