PUBLIC DEBT AND INTERGENERATIONAL EQUITY

DISCUSSANT COMMENTS

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Outline

- Intergenerational equity
- Benefit cost arithmetic
- Accounting for assets and liabilities
- Tax-smoothing
- The path depicted
- Fiscal rules

Inter-generational equity issues

This constraint requires that the sum of generational accounts of all current and future generations ***plus existing government net wealth*** *be sufficient to finance the present value of current and future government consumption.*

- Concerned about dragging down the future: SG has a different problem
- Capital (infra and development) and some current spending can contribute to intergenerational benefits and costs
  - Institutional maturation surveys; doing business/Chandler good governance
- Trustworthiness may also be kindred spirit with sufficiency, equality, reciprocity and benefit
  - Building off strong base

Benefit-cost arithmetic

- Notional next generation versus actual generation
- Difference between social benefit and fiscal benefit; this is about funding the fiscal entity
- Chance for win-win – lower social opportunity cost of capital and favorable *r*-*g*.
  - Even though marginal gains from spending may not be that high as pointed out by authors
  - SG's level of institutional and economic development a key comparative advantage that may need ongoing nourishment; counterfactual matters
  - Response requires ongoing good policy and project choices, and
  - Credible commitment to that, to reinforce trustworthiness

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Balance sheets could rule

- Much of discussion is about creation of new assets
- Is government a corporate entity?
  - IPSAS over past 25 years; two-thirds of countries moving to IPSAS-influenced accrual statements based on notion of control
- What is fiscal and what is not…
  - Is control an appropriate concept for thinking of the finances of the state
  - Cf a statistical abstract concept such as general government (economic management) or ‘budget sector’ (narrow accountability)
  - Horses for courses – different frameworks have different uses
- Paper could include consideration of reapplying assets, rather than increasing liabilities
  - In 10 years, when GDP is estimated at $588 billion; CF general balance is estimated at $685 bn, or 116% of GDP; $90 billion only 13% of that value; minor reduction in NIRC could follow from lower assets
- Dr New asset / Cr Cash reserves; Dr New asset / Cr LT liabilities (debt)

Dr	New asset	Dr	New asset
Cr	Cash reserves	Cr	LT liabilities (debt)

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Tax smoothing

- Stylization that applies to the fiscal sector; lumpiness but also demographic
- Requires commitment to an unknown future, run by unknown people dealing with unknown issues who are assumed to respect or honor the past path
- Reserves accessed too early; means future folks pay higher tax
- Reserves accessed too late; means that past folks have paid too much
- Values and culture change through time: legacy may matter
- A guiding hand to fiscal policy; adoption of framework more than adoption of numerical path

The path and the rule

- Trend growth assumption
- LT rates if debt increases?
- Commitment device to stay the course a question of discretion at that time
- Numerical fiscal rules have a sorry history
  - Framework rule, such as proposed, is a better approach
  - Maybe needs to sit in a broader institutional framework

A USEFUL CONTRIBUTION TO FISCAL POLICY CONSIDERATION AT THIS TIME

Other and more comprehensive forms of commitment devices could be helpful