How debt and equity are linked

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A paper by two Institute of Policy Studies (IPS) researchers highlights four principles of inter-generational equity relevant to Singapore's fiscal management of reserves, and why the relationship between public debt and inter-generational equity is not straightforward:

1. Sufficientarian principle

Each generation's obligation is to provide a minimum threshold of resources enough for the basic needs or liberties of the next generation.

2. Inter-generational equity

Each generation's obligations are to ensure every generation achieves equality within its respective generation.

3. Reciprocity principle

The current generation has an obligation to return to the next generation what it received from the previous generation.

4. Benefit principle

Each generation should pay for what it benefits from, and not pay for what it does not benefit from ("benefiter-pays"). Future generations should not have to pay, through taxation, for social spending that benefits present generations.

From these principles, said the paper, it can be inferred that the Government's current position on public debt follows the benefit principle.

This is because borrowing is only permitted for long-term infrastructure investments which have benefits across generations, while recurrent spending needs such as healthcare and education must be funded by recurrent revenue streams such as taxes.

But relying on the benefit principle alone is problematic, as all forms of expenditure can have inter-generational benefits, said IPS researchers Christopher Gee and Kunal Pawa.

They noted that some forms of current expenditure, such as education and healthcare, develop human, social and cultural capital which indirectly benefit future generations.

Non-infrastructural capital expenditure such as the National Cancer Centre Singapore can also have direct and indirect benefits to future generations.

The relationship between debt and inter-generational equity is not straightforward or simple, they added.

If the Government were to now issue debt to finance consumption vouchers as a fiscal stimulus to the Covid-19 crisis, it would violate the principle of reciprocity, because current generations would be acting against the sacrifices of past generations.

"At the same time, however, if the Government issues debt to finance a programme in unemployment insurance, it could improve inter-generational equality," they said.

"Children of unemployed parents have a greater chance of social mobility if their parents are supported by a government-provisioned unemployment insurance programme."

They conclude that debt financing of public expenditure and its consequence on inter-generational equity in Singapore are not just a matter of which generation benefits. It must also consider the implications of expenditures on reciprocity, equality and welfare.