

## [Government should be banned from borrowing](#) [1]

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If you run a think-tank you are well used to getting densely-typed or hand-written letters, in which the author proclaims some ingeniously simple idea that will solve all the country's (and probably the world's) economic and political problems. They often come with diagrams, and yes, the use of green ink is surprisingly common among this genre.

Obviously I don't want to be thought part of the green-ink brigade, but maybe there is indeed one pretty simple idea that would solve ? well, not all, but a fair number of our problems. It struck me as I was writing my new guide to Milton Friedman, who very much supported it ? the simple rule that governments should not be allowed to borrow, nor run up long-term debts for future generations.

For a very long time, it has seemed perfectly natural that governments could and should borrow ? to finance expensive wars or infrastructure projects, for example. Keynesian economists saw the occasional deficit as an important way of managing the economy. But once you give politicians the power to borrow, a huge moral hazard arises. It becomes just too tempting, and too easy, to borrow for the purposes of current consumption, rather than future benefit. More expensive schools, rising healthcare standards, more generous pensions, more police, social workers and officials, even bailing out the banks ? all can be packaged as an 'investment' in the future. But in fact the principal beneficiaries are we today, who enjoy all these improvements. The losers are the next generation who find themselves bearing the cost.

Gordon Brown, when UK Chancellor, announced the intention to balance the government's budget 'over the economic cycle' and to borrow 'only to invest'. Unfortunately, as I say, much of his 'investment' was in fact simple spending, paid for by borrowing. And since it is not easy to define a 'cycle', we found him moving the goalposts when the books didn't balance. Nor did the rules survive their first major test, the financial crisis.

If governments had to balance their books, the pressure to overspend would be greatly reduced, and more minds would be concentrated on thinking about what government was really there to do, and about the nasty business of how to pay for it without passing the bill on to our children. And the rule should be a definite one ? say, that the books have to balance at the end of every five-year period, not over some vague 'cycle'. OK, it may not save the world, exactly; but it would produce much more responsible and honest government.

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