The national debt is rising. Who will pay the bill? [1]

Written by **Ben Southwood** [2] | Tuesday 23 April 2013

George Osborne will derive little comfort from today's deficit figures, which show the public sector net borrowing requirement down only £0.3bn between the 2011/12 and 2012/13 financial years, after accounting for one-off effects. This puts borrowing at £120.6bn, after last year's £121bn, and ahead of 2014/15's projected £120bn. Total debt stands at £1.19 trillion, or 75.4 per cent of GDP, the ONS says [3] up from £1.10 trillion, or 71.8 per cent of GDP a year before.

A tired ? but apparently necessary, given public misconceptions, fuelled by confusions over the debt/deficit distinction from politicians of all strips ? point, is that this shows just how much the debt is still going up despite the Treasury's Plan A. I wouldn't draw from this that austerity is not happening ? some budgets are being cut very quickly, and overall spending is expected to fall a significant 2.7 per cent between 2010/11 and 2017/18. But debt is rising very quickly.

The revelation of the spreadsheet errors in Reinhart & Rogoff's influential paper (which said national debts above 90 per cent of GDP could slow growth) means we may have less reason to fear high debt. But we may still have concerns about the redistributive effects of government debt, at least if we've read recently-departed Nobel laureate James Buchanan's work on public finance [4]. Governments borrow to use resources without depriving the taxpayer. But these resources have to come from somewhere (assume full employment or a central bank meeting a nominal target).

Those who buy the gilts, or T-bills, or bunds, pony up the resources now, in return for a better investment opportunity than was available elsewhere. But assuming that households do not act as infinite dynasties, valuing future generations equally to themselves and therefore assuming households do not save now to pay for the inevitable future taxes (i.e. Ricardian Equivalence does not hold) ? then future generations will shoulder the burden.

On the one hand, future generations are likely to be much richer than us. This is a trend that has gone on for at least 250 years in the UK, and for shorter periods elsewhere. In some countries it has gone in reverse (spectacularly in Argentina [5]). But on the whole, we can expect future generations to be richer than us. So why shouldn't they shoulder the burden, given their broader shoulders?

This argument is fairly convincing, but it only goes so far. No one would suggest it would be fair to redistribute infinitely toward users of state-provided services and towards bond-buyers, away from future generations. After all, given the secular decline in growth we've seen since the Second World War, they may not be as much more prosperous than us than we are over our parents. As ever in numerical issues, the question may be one of finding the right balance.

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