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## Intergenerational Equity: Issues of Principle in the Allocation of Social Resources Between this Generation and the Next

The Commonwealth Government's *2002–03 Intergenerational Report* is about fiscal issues, but it is not value-free. The concepts of intergenerational equity and sustainability are philosophically and economically contested ones. This paper analyses and clarifies the basic philosophical suppositions and rationales implicit in the *Report*, in the context of some of the major competing views about what our obligations of justice are to future generations

Assoc. Professor Janna Thompson, Consultant  
Social Policy Group  
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## Executive Summary

The Commonwealth Government's 2002–03 *Intergenerational Report* is one in a series of reports required by the *Charter of Budget Honesty Act 1998*. The Act requires intergenerational reports to 'assess the long-term sustainability of current Government policies over the 40 years following the release of the report, including by taking account of the financial implications of demographic change'. Subsequent Intergenerational Reports are to be released within five years of the preceding report. These reports, therefore, are intended to play an ongoing role in providing policy settings and feedback into the future.

The *Intergenerational Report* argues that Commonwealth spending will begin to exceed revenue fifteen years from now, resulting in a budget deficit of \$87 billion (5 per cent of GDP) by the year 2041–42. The report attributes this to increasing levels of age related spending (particularly on expensive new medical and pharmaceutical technology) in the context of declining fertility and mortality rates. The report notes that if policy is not adjusted, the next generation of taxpayers will have to pay higher tax rates than we do in order to avert the \$87 billion deficit.

There are differing opinions as to the accuracy of the fiscal projections made in the *Intergenerational Report*, and also the appropriateness of the policy responses it favours. But, as well as these, there is a further, and more fundamental point of contention in the arguments of the report. This is the question of what is wrong or problematic about future generations facing a greater tax burden (fiscal inequity), or a greater level of public debt, than we do (in the circumstances projected in the *Intergenerational Report*), and just how problematic is it? These questions are not fiscal ones, nor technical economic ones. They are philosophical questions that engage ethical concerns about distributive fairness and justice, and the nature of our moral obligations to future generations.

The discussion of intergenerational equity and deferred tax burdens in the *Intergenerational Report* is framed in terms of 'fiscal sustainability'. This can be understood as requiring that the present generation not impose budgetary burdens on future generations. Though it does not develop a systematic principled defence of fiscal sustainability, it does implicitly appeal to two distinct value-based rationales for fiscal sustainability and fiscal equity—one that relies on obligations to sustain quality of life for future generations, and another that appeals to a 'benefiter-pays' principle of fairness. There are differing and competing views on what obligations one generation has to another, and why. The purpose of this paper is to analyse and clarify the basic suppositions and rationales implicit in the *Intergenerational Report* in the context of some of the major competing views about our obligations of justice to future generations. The following key points and observations emerge from that analysis:

- Fiscal equity is not a necessary precondition for sustained living standards into the next generation. Passing on debt or a tax burden to the next generation may not compromise future quality of life.
- The concept of 'intergenerational sustainability' is a theoretically contested one. There are competing views about what it means, and what exactly it is that needs to be sustained into the next generation. And, consequently, there are competing views about what intergenerational obligations, if any, the goal of sustainability imposes on the current generation.
- Our obligations to future generations can compete with our obligations of justice to contemporaries. Arguably, just how extensive our obligations of sustainability are to the future, will have to be decided in terms of the needs and entitlements of our contemporaries, both in this country and outside it.
- Even if the principle that people should pay for what they benefit from might support policies of fiscal sustainability, it may also preclude the current generation from paying for things such as nuclear waste disposal facilities, that only future people will benefit from.
- There are two ways of avoiding passed on debt that are consistent with a 'benefiter-pays' principle: (i) for the present generation to forego certain benefits, or (ii) to maintain the benefit but ensure that it is fully paid for by the present generation. So a preference for policies that maintain low tax rates and contain growth in current government expenditure needs to be given extra justification.
- It is an important issue as to whether the amounts currently paid for the benefits and services used by the present generation are fair amounts or costs. The total payments that pharmaceutical manufacturers receive from the Commonwealth's PBS subsidy scheme, for instance, will clearly affect what pressures there are to pass debt onto the next generation.
- The two rationales for intergenerational fiscal equity are lent theoretical support by different underlying philosophical conceptions of justice and fairness. These conceptions, however, have their respective strengths and weakness, and the weaknesses provide cause to view the rationales, and the requirement of fiscal equity with some caution.
- At a broader level, the very idea of obligations of intergenerational justice, fairness and equity faces some general conceptual problems, but the basic arguments of the *Intergenerational Report* rely on such obligations being unproblematic.

All these points and observations serve to show that the issue of intergenerational fiscal policy is neither a simple nor straightforward matter of budgets and balanced ledgers. When properly examined in the context of its broader conceptual implications and

underpinnings, the real complexity of potential policy options and social choices comes into view

## Introduction

The Commonwealth Government's *2002–03 Intergenerational Report* is one in a series of reports required by the *Charter of Budget Honesty Act 1998* (Cwlth).<sup>1</sup> The Act requires intergenerational reports to 'assess the long-term sustainability of current Government policies over the 40 years following the release of the report, including by taking account of the financial implications of demographic change'. Subsequent Intergenerational Reports are to be released within five years of the preceding report.<sup>2</sup> These reports, therefore, are intended to play an ongoing role in providing policy settings and feedback into the future.

According to the fiscal projections made in the *2002–03 Intergenerational Report*, Commonwealth spending is expected to begin to exceed revenue 15 years from now, the gap between spending and revenue continuing to grow to 5 per cent of GDP by the year 2041–42. This will amount to a projected budget deficit of \$87 billion by 2041–42. The *Intergenerational Report* attributes this partly to increasing levels of age-related spending in the context of declining fertility and mortality rates. The report argues that, on current policy and tax settings, the projected productivity, work force, and age-dependency levels will be such that the costs of health and aged care provision, and of expensive new medical and pharmaceutical technology will eventually exceed Commonwealth revenue. Unless policy is adjusted, the report notes, future generations of taxpayers will have to pay tax rates higher than that of the current generation in order to avert the \$87 billion deficit.<sup>3</sup>

A number of policy and fiscal responses for avoiding this intergenerational tax inequity are possible. The *Intergenerational Report* does not go into this policy question in a detailed way. However, there is clear indication that it favours approaches that maintain low tax rates, contain growth in current government expenditure,<sup>4</sup> increase the economy's capacity to generate revenue, and encourage private sector funding.<sup>5</sup> Some have argued that this set of options is too narrow, and that measures such as tax increases, for example, ought not be dismissed from the start.<sup>6</sup> Other commentators have questioned the extent to which the projected tax burden on the next generation should be attributed to an ageing population rather than simply the increasing use of Commonwealth subsidised expensive new medical technology.<sup>7</sup>

Whatever the views on the economic causes and fiscal responses to this problem of intergenerational tax inequity, a more fundamental underlying question remains unaddressed, namely, why this inequity should be seen as a problem. What is wrong or problematic with future generations<sup>8</sup> facing a greater tax burden, or a greater level of public debt, than we do (in the circumstances projected in the *Intergenerational Report*), and just how problematic is it? They arise at a more fundamental level, a level that engages philosophical questions about fairness and justice, and the nature of our moral

obligations to future generations. Just what sort of policy response is appropriate to this fiscal inequity will depend heavily on just what sort of problem it should be seen as, philosophically—whether, and to what extent, it is ethically unfair, or is an abrogation of our moral responsibilities to future people.

To merely assert that intergenerational fiscal inequity is something to be avoided, is to assume much in the way of needed argument. There are differing and competing views on what obligations one generation has to another, and why. The purpose of this paper is to:

- identify and clarify the assumptions and suppositions that seem to underlie the *Intergenerational Report's* assertion that fiscal inequity is a problem, and
- to analyse these in the light of differing philosophical views and points of contention surrounding the idea of intergenerational ethical obligations.

The following discussion does not seek to make specific recommendations about the particular policy or fiscal responses that might be the right ones. It does, though, hope to provide a clearer perspective for assessing the attitude that the *Intergenerational Report* takes to the issue of intergenerational fiscal equity.

## **Fiscal Sustainability: Two Rationales**

The *Intergenerational Report* does not develop a systematic or prolonged discussion of what it is that it takes to be problematic about allowing future generations to be faced with an accumulated debt, and a higher tax burden than us. The limited number of things the report does say on this matter, however, reveals that it counts it as problematic, not for mere technical economic reasons, but for reasons to do with a commitment to certain value-based principles and social goals. It does not elaborate these principles and goals, other than to state them. Nor does it acknowledge their normative status or contestability. The following discussion elaborates the philosophical principles and goals assumed in the report, and also how it takes them to support intergenerational fiscal equity. These goals and principles also presuppose certain broad theoretical conceptions of justice, and those conceptions have strengths and weaknesses of their own. So, the dual focus of the discussion will be to explore the advantages and disadvantages of these principles and goals in supporting intergenerational equity, and also how those principles and goals stand in view of the broader theoretical perspectives they assume themselves.

The discussion of intergenerational equity and deferred tax burdens in the *Intergenerational Report* is framed in terms of *fiscal sustainability*. This is 'the government's capacity to manage its finances so it can meet its spending commitments, both now, and in the future'.<sup>9</sup> Fiscal sustainability can be understood as requiring that present generations not impose budgetary burdens on future generations. They should not leave behind deficits and debts that future people are obliged to pay, and should ensure, so far as possible, that future people will be able to enjoy a reasonable standard of life. A practice of fiscal sustainability is one that ensures 'the level of government debt passed

onto the next generation is appropriate'.<sup>10</sup> In so doing, it 'promotes fairness in the distribution of public resources between generations of Australians'.<sup>11</sup>

The *Intergenerational Report* employs two distinct principled rationales for counting fiscal sustainability a valuable thing. The two rationales are based on:

- the goal of sustained quality of life, and
- a 'benefiter-pays' principle of fairness.

### **The Goal of Sustained Quality of Life**

The *Intergenerational Report* regards fiscal sustainability as 'an important precondition' for bringing about 'sustainable improvements in wellbeing' over time, and into future generations. In other words, fiscal sustainability is necessary to achieve or realise the broader goal of sustained wellbeing or quality of life. The report characterises this broader goal as follows: 'Broadly defined, sustainability requires the maintenance of appropriate economic, social and environmental conditions through time to ensure the wellbeing of future generations is not compromised by the activities of the current generation.'<sup>12</sup> 'By maintaining sustainable government finances, the Government avoids compromising the wellbeing of future generations by the activities of the current generation.'<sup>13</sup> On this view, leaving a higher tax burden for the next generation would amount to compromising their wellbeing presumably because future individuals would have less disposable income than otherwise to enhance it. It does not contribute to the sustaining of wellbeing into the next generation.

### **The 'Benefiter-Pays' Principle**

Fiscal sustainability is also taken to be important to ensure that future generations of tax payers do not end up paying for social resources and services that the current generation benefits from but does not pay for. 'Fiscal outcomes that lead to the ongoing accumulation of debt ... transfer the cost of paying for the lifestyle of the current generation to future generations.'<sup>14</sup> Fiscal sustainability 'ensures future generations of taxpayers do not face an unmanageable bill for government services provided to the current generation.'<sup>15</sup> Fiscal sustainability is desirable, on this view, because it respects a principle of 'benefiter-pays'—those who benefit from something should contribute, and those who don't benefit should not have to pay. Debt that is incurred through spending on healthcare, pharmaceutical subsidy and social safety provision for the current generation, but which has to be paid for by the next generation of taxpayers, violates this 'benefiter-pays' principle.

Sometimes these rationales are run together as one. But it is important to keep them separate, because they give importantly different answers to what is problematic with allowing debt to accumulate into future generations (under the conditions projected in the *Intergenerational Report*). The two rationales are also different in that they have their



philosophical homes in different theoretical contexts. Each of these rationales will be discussed in turn.

### **Sustaining Quality of Life as a Rationale for Fiscal Sustainability**

How sound is the view that fiscal sustainability—not imposing debt or a higher tax burden on the next generation—is necessary in order to sustain wellbeing or quality of life into the next generation? The response to this will, of course, depend on what the broad notion of 'sustainability' is taken to mean and to imply in the way of obligations to future generations. Sustainability is a highly contested concept, and the respects in which this is so are explored shortly. However, it is still possible to make the following initial observations:

- The broad notion of sustainability is about people's overall quality of life, standard of living or wellbeing, while *fiscal* sustainability is confined to the specific impacts that (Commonwealth) financial and tax arrangements have on it.<sup>16</sup> The latter, though, are but one among a number of influences on quality of life. This suggests the possibility that the overall quality of life for the next generation of tax payers can be high, even higher than the current generation's, even when debt has been passed onto the next generation. In fact, the fiscal analysis of McDonald and Dowrick suggests that according the *Intergenerational Report's* fiscal projections, the living standards of Australian households (and of aged people) increases substantially by the year 2040.<sup>17</sup> While admitting that it is still a question just what level of quality of life needs to be maintained for sustainability to be achieved, it seems that life quality can increase in the next generation, even in the context of passed on public debt. It's not clear in what sense, then, not passing on higher tax rates is a *necessary* precondition for sustained quality of life or living standards.
- There may well be many situations in which passing on a tax burden to future generations, instead of detracting from their quality of life, actually contributes to its improvement. For example, spending a lot now on the training of nurses, teachers, medical professionals, etc. for the next generation, and deferring payment to the next generation. Similarly with many other examples of infrastructural and institutional investment spending, payment for which is at least partly deferred to future taxpayers who will benefit from the investment. Sure enough, it might be that future people ought to contribute according to a 'benefiter-pays' principle. But the point is that passing on debt or a tax burden does not necessarily compromise future quality of life.<sup>18</sup>

### **The Contested Meaning of 'Sustainability'**

The meaning and implications of 'sustainability' are far from clear. The World Commission on Environment and Development defines sustainable development as 'development which meets the needs of the present without compromising the ability of future generations to meet their own needs'.<sup>19</sup> The focus in the *Intergenerational Report* is on national, rather than global, concerns, but like the Commission it assumes that both

moral and prudential considerations require that we make sustainability the objective of intergenerational policy making.

A few people have questioned this. Some economists and philosophers have wondered whether we really do have moral duties to future generations.<sup>20</sup> Some economists, like Wilfred Beckerman, also argue that there has always been economic growth over generations, and quality of life has always increased almost as a matter of course, so there is not much need to actively concern ourselves with the task of sustaining well being.<sup>21</sup> But putting these positions aside, there is considerable disagreement about what sustainability means and what exactly should be sustained. 'Sustainability', argues philosopher Jacobs, is a contested concept.<sup>22</sup> The following reflect some of the main points of contestation:

- If the goal of sustainability does impose obligations on us, what exactly are those obligations? Most systems of morality insist that we have a 'negative' duty to avoid harming others. People disagree about what, from the moral point of view, constitutes a 'harm'. But most people would probably include activities that threaten the life, health and basic rights of others. On this negative-duty reading, sustainability would morally oblige us to ensure as much as possible that the wellbeing or quality of life of future generations is not harmed in these ways by our activities. It is more controversial, however, to suppose that we have positive duties to future people—a duty to ensure that our current activities advance their well being, or enable it to be advanced in some way. If the goal of intergenerational sustainability does impose this sort of positive duty (as well as the negative one) the question remains as to how far that duty extends. Do we have a duty to ensure (so far as we can) that the standard of living for the next generation is at least as high as ours? Or is as high as it could be? Or do our obligations extend only to ensuring that their standard of living remains above a certain minimum? Many argue that sustainability simply requires that future generations be left no worse-off than earlier ones.<sup>23</sup> Clearly, how we answer these questions will impact directly on the sorts of fiscal and policy measures that can be required in the name of intergenerational sustainability.
- There is also the question of exactly what sort of thing sustainability requires us to pass onto the future, and of these, which is more and which is less important to pass on? Should we aim to ensure that future generations have access to certain *types* of resources and benefits—for example, the natural environment, animal diversity, mineral and oil deposits, historical heritage, etc.? Or does sustainability recognise that there are different routes to wellbeing, and only require that we pass on a bundle of resources, whichever particular resources they turn out to be, that ensures future people have (at least) the *same degree of opportunity* as us to pursue their wellbeing.<sup>24</sup> On the other hand, some might argue that we concentrate less on sustaining material or economic resources, and more on sustaining just social institutions that preserve citizens' basic rights and freedoms.

- Our intergenerational obligations often compete with our obligations of justice to contemporaries. It may be wrong for present generations to impose harmful burdens on future people, but wouldn't it also be wrong to make present people accept burdensome sacrifices for the sake of future generations? Arguably, just how extensive or strong our obligations of sustainability are will have to be decided, at least partly, in terms of the needs and entitlements of our contemporaries<sup>25</sup>—those who are disadvantaged, without work, in need of affordable medication, or who are starving and displaced in other parts of the world. Perhaps it is better, some would argue, to pass on a debt to the next generation, if that debt has been incurred through ministering to the disadvantages and inequities that exist now.<sup>26</sup> An important, and often unaddressed, question is what the appropriate priorities should be between obligations of sustainability and obligations of fairness and justice to contemporaries. The definition of sustainability offered by the World Commission says that a balance must be struck between the needs of people of the present and those of the future. But what that balance should be is a matter of controversy. This question speaks directly to the concerns of the *Intergenerational Report*, particularly whether balanced budgets and intergenerational tax equity should be given priority over affordable access to health-care and medicines, or equitable access to aged care and social safety net provision for current people.
- There is also the question of what sustainability implies about how resources should be distributed *among* people in future generations. Whatever total or level of resources and opportunities our obligations of sustainability require us to leave to the next generation, do they require us to ensure (as much as possible) that those resources and opportunities are distributed justly and fairly among the members of that generation? In other words, does the goal of sustainability require us not only to sustain quality of life into the next generation, but also to sustain (or ensure) its fair distribution? The answer one gives to this question will have implications for whether balancing the budget and not passing on publicly inherited debt always contributes to sustainability. For example, it is commonly accepted that people's life prospects are significantly influenced by the family circumstances into which they are born, as well as their access to educational opportunities, among other things. Adequate public spending now to provide targeted family and educational support (in the way of e.g. adequate child support and subsidised child-care and maternity leave, employment support, sufficient tertiary places and allowance support) may help to avert future disadvantages and deficits in wellbeing for those otherwise at risk of this. So, well targeted spending now can be an investment that ensures the sustainability of fairer life outcomes for future individuals. And that may require deficit spending, and the passing on of some debt.

### **'Benefiters Should Pay' as a Rationale for Fiscal Sustainability**

As noted earlier, this view argues that it is unjust for the current generation to impose a debt on the next generation for benefits that the current, but not the next generation, enjoys. It may also happen in the circumstances of passed on debt, that the wellbeing or quality of life of the next generation is compromised, and not sustained. But then again, it

might not be compromised. Whether the goal of sustainability is maintained or not by passed on debt, is not relevant on the 'benefiter-pays' view. What is relevant is solely whether the present generation of taxpayers has paid for what it has taken, and whether the next generation is made to pay for something it hasn't benefitted from. Strands of argument in the *Intergenerational Report* subscribe to the view that it would be unjust and inequitable for the next generation to have to pay (through higher tax levels) for the aged care, health care, and pharmaceutical subsidies of the present generation. To avoid this injustice, the argument continues, it is necessary to maintain fiscal sustainability.

Just as with the previous sustainability-based argument, it is possible to make some observations concerning the 'benefiter-pays' rationale for fiscal sustainability:

- It should be said at the start that the supposition that future generations do not benefit from expenditure on health care and pharmaceutical provision for the current generation of tax payers is questionable. Adequate, timely and affordable provision of these can help to prevent further and often greater health-related costs arising in the future—foregone costs that future generations will benefit from.
- If a benefiter-pays rationale is applied in its simple form, then it will not only argue against us creating a big bill for the next generation to pay for things it doesn't benefit from, it also looks as if it will preclude this generation from paying for things that the next generation will benefit from but doesn't pay for. This will include the likes of infrastructural, institutional and cultural capital investments this generation makes and passes onto the next. Even if we now benefit from these things as well, the fact that the next generation doesn't pay for them is enough, on the benefiter-pays principle to deem their future use unjust. Most pointedly, this rationale will make it unjust for us to pay anything for things that *only* future generations will benefit from, such as facilities for nuclear waste disposal, or the reduction of greenhouse gases. In its simple form, the 'benefiter-pays' principle seems too strong.
- A 'benefiter-pays' principle does not always necessarily support a policy of not passing on debt to future generations. In fact, it will require that debt be passed on if future generations have identifiable needs that can only be properly addressed through the actions and spending of earlier generations. Suppose, for example, that repairing damage to the environment—perhaps, solving the problem of salinity—is extremely costly and requires the government to incur a debt which future generations have to pay. But since they will also reap most of the benefits, they will surely have no reason to complain of injustice or unfairness, at least not based on the 'benefiter-pays' principle.<sup>27</sup>
- There are two possible ways of avoiding passed on debt: by containing current spending or by raising more revenue from present taxpayers. The first option is to forego certain benefits, and the second is to maintain the benefits but ensure that they are fully paid for. Both these options are consistent with a benefiter-pays principle. It is generally recognised that in some cases, containing costs and reducing spending now

can actually shift costs into the future.<sup>28</sup> Limiting government subsidies to pharmaceuticals, for example, may result in other health care costs (and possibly greater ones) arising at a later time. In a sense, this would be transferring a burden into the future in much the same way as passing on debt, and imposing higher tax rates on the next generation.

- The 'benefiter-pays' principle, in the end, only seems sound if the price that has to be paid for the benefit is a fair price. The whole issue of costs is often overlooked, and the question is often not addressed as to how prices are determined and whether they are just. This is a particularly critical matter in the case of pharmaceuticals, a central cost concern of the *Intergenerational Report*. The prices that manufacturers charge government subsidy schemes for pharmaceuticals will clearly affect what pressures there is to pass on debt to the next generation, and what that debt would be if it were passed on. Also, if cost containment is the fiscal priority, pharmaceutical prices will directly affect what level of pharmaceutical provision needs to be cut back or foregone.<sup>29</sup> The fairness of the costs incurred in our lifestyle should be as much a consideration as the unfairness of passing those costs on to the next generation.

## **The Philosophical Bases for the *Intergenerational Report's* Rationales for Fiscal Sustainability**

What deeper basis do these two rationales for fiscal sustainability have? The previous discussion focused on how well fiscal sustainability can be defended from the point of view of a goal of sustaining future wellbeing, or the point of view of a benefiter-pays principle of fairness. But it did not address the question of whether this goal and this principle are themselves defensible, and *do* impose on us obligations to future generations. This is a philosophical matter to do with the deeper conceptual and theoretical foundations of justice, and intergenerational justice in particular. Justice is itself a contested concept, and there are different philosophical approaches to explicating that notion and its implications.

The following few paragraphs briefly note the broad theoretical conceptions of justice that might be taken to lend philosophical support to a goal of sustaining future wellbeing, or to a principle of benefiter-pays. The point of noting these conceptions is to observe some of their relevant theoretical strengths and weaknesses, and in virtue of them, note some further strengths and weaknesses of the suppositions and arguments in the *Intergenerational Report* concerning fiscal sustainability.

## **Theories of Justice and Intergenerational Relationships**

There are three broad theoretical approaches to justice that are especially relevant to a discussion of the *Intergenerational Report*:

- A 'Mutual Advantage' conception of justice. A just society, according to this view, will be one where each rational, self-interested person derives the maximum gains they can from voluntary cooperation.
- A 'Desert' or 'Entitlement' conception of justice. A just society will be one where individuals are rewarded or punished, obtain benefits or incur costs, according to their deserts or contributions.
- Justice as Fair Outcomes. A just society is one in which institutions produce an outcome that members (as rational agents with a sense of justice) can regard as fair.

### **Justice as Mutual Advantage**

According to this view, an arrangement is just if each party to it has good reason to believe that it provides him or her with the best benefit she can obtain compared to the costs she is required to make as part of the arrangement. On this view, justice can be likened to a rational bargain in which each party to an arrangement tries to get the best deal that he or she can from cooperating with others.<sup>30</sup> The obligations of justice a mutual advantage conception entertains will not be ones that require people to make sacrifices or take on burdens that do not have a 'pay-off' or corresponding proportionate benefit for them in return. There is therefore, no obligation of justice for people to make unrequited sacrifices for the sake of present or future individuals. Whatever contribution they make to the common good, it is fair only if it is balanced by at least as much benefit to themselves. A mutual advantage approach thus seems like a promising basis for a benefiter-pays principle. A mutually advantageous 'bargain' between members of proximate generations is likely to result in an agreement that each individual should obtain from intergenerational relationships benefits which are at least as great as his or her costs.<sup>31</sup>

There are certain problems, however, with the mutual advantage approach to justice between generations:

- The mutual advantage approach makes assumptions about people's motivations which many find implausible or troubling. For example, those who assume that present taxpayers ought to provide educational services for the young do not generally suppose that their obligation turns on whether they will get a decent return for their sacrifices.<sup>32</sup>
- The mutual advantage approach is also open to the criticism that those with little bargaining power—that is, those who have great needs and little ability to provide benefits—will get the worst deals. For example, if bad economic circumstances have made it difficult for most members of a generation to save for old age, then they could not, on a mutual advantage view, expect to get much, if anything, from their successor generations. Moreover, the mutual advantage conception of justice cannot take into account, and has nothing to say about, the fairness of the conditions which affect the bargaining power of individuals or generations and their ability to pay.<sup>33</sup>

To the extent that the mutual advantage view has these problems, so too will a principle of 'benefiter-pays' based on that view.

### **Justice as Entitlement**

This entitlement conception of justice appeals to an intuitively plausible moral idea: that individuals ought to have what they deserve, and that, so far as possible, social and economic arrangements should ensure that this happens. Desert or entitlement views of justice are usually qualified in an important way. They stipulate that whatever benefits and burdens people end up with in their lives, this will be fair if those benefits and burdens have resulted from people's free choices, and if everyone has started on an equal footing. So, if all have had an equal start in the way of initial capacities and initial resources, then they will deserve whatever the outcomes are (favourable or otherwise) of their choices. It is not hard to see how this entitlement view of justice lends theoretical support to a 'user-pays' principle. People should get what they pay for because in choosing to pay they're entitled to it. People shouldn't have to pay for what they don't benefit from, because the cost isn't the result of a choice they have made to acquire the benefit. One of the underlying themes of entitlement-based views is that people are to be seen as responsible for their own choices, when they are fairly and freely made.

There does seem to be something intuitively plausible about the thrust of the entitlement view of justice. However, it does have shortcomings, the major among which are the following:

- ***Problems in establishing equal starting points:*** The entitlement view relies on assumptions about people's opportunities, capacities and resources being equal to start off with (even if they subsequently change as a result of the decisions they make). However, except for highly defined circumstances, people start their lives in different and unequal conditions. If an entitlement view is ever to have application in the world as a way of assessing the justness or fairness of social and financial arrangements, it will need to explain how people's initial opportunities can be made more equal.

Traditional approaches to equal opportunity centre on education and family development—on measures that aim to ensure that all children acquire the skills and habits that will enable them to compete on equal terms. However, educational measures have a number of drawbacks. Whenever they are vigorously pursued, they are open to the accusation of interfering in an unjustified way with the choices of parents and children (particularly of those who come from non-mainstream religious or ethnic groups). But even if vigorously pursued, their effect is limited. They cannot equalise the opportunities of children who receive large inheritances and those who start with no financial resources.

To address this, other approaches favour giving resources to individuals early in life and allowing them to decide how they will use them. For example, Ackerman and Alstott (1999) recommend that all young adults receive a substantial financial stake

which they can use for whatever purpose they choose—for education, starting a business, helping their children, or investment.<sup>34</sup> Less radical suggestions favour providing families with funds for education or child raising and allowing them to use the money in whatever way they think will benefit their children.<sup>35</sup> The Blair Labour government (UK), for instance, has instituted a limited system of 'start-up grants' for new generations, in response to inequality in starting-points for young people, and also as an insulation against for example temporary joblessness or educational expenses, or descent into welfare dependency.<sup>36</sup>

A problem for all policies for promoting equality of opportunity—however radical—is that they can never entirely succeed. Family background, resources of a community and attitudes of contemporaries will always make a difference. And therefore no society will ever be entirely just by the standards of the entitlement model. Advocates of justice as entitlement have to face the problem of what to do when social reality fails to conform to the philosophers' model of a just society.

- ***The consequences of poor choices:*** Advocates of entitlement views also have to decide what should be done when individuals make bad choices about how to use their resources or opportunities. Should a person who has been given opportunities but ends up in abject poverty be regarded as responsible for his own fate and thus not deserving of government financed aid? The question of whether, and how much, people should be made to pay for irresponsibility or bad choices is particularly relevant to debates about health care. Should people be denied expensive medical treatment when their condition is the result of irresponsibility or risk taking?

Those who answer 'no' to this question may be influenced by the conviction that people, whatever their history of choices, are entitled to such things as medical care or to pensions in their old age. This conviction might also be bolstered by the reflection that personal responsibility is difficult to gauge, and that the personal qualities that influence a person's fate—their intelligence, talents, attitudes, diligence, etc.—may be partly or largely determined by factors beyond their control. Doubts about whether individuals should be held completely responsible for their decisions, together with the recognition that no society can make opportunities truly equal (at least without questionable interferences by governments in family and community life) may encourage a move toward an outcomes based conception of justice—at least in some areas of social policy making.

### **Justice as Fair Outcomes**

According to this view of justice, all individuals should be able to enjoy their fair share of resources or have their needs met regardless of their history, opportunities or their personal deserts. An outcomes conception is forward rather than backward looking. It aims to produce a particular result as far as the distribution of goods and services is concerned. This conception of justice seems to be most compatible with the first 'sustained quality of life' rationale for fiscal sustainability in the *Intergenerational Report*, where



imposing greater tax burdens on future generations is unfair because it detracts from the achievement of an outcome of sustained wellbeing into the next generation.

The obvious question is what counts as a fair outcome? Theorists provide different answers to this question. Egalitarians believe that wealth and other resources ought to be distributed more or less equally among members of a society.<sup>37</sup> A fair share is an equal share. Utilitarians believe that policies should aim to maximise the level of well being of people in a society (or in the world as a whole). The most significant outcomes theory of our times, that of philosopher John Rawls, holds that inequalities are justified if and only if they tend to increase the well being of the least well off groups in society.<sup>38</sup>

Outcomes theories generally concern themselves with distributions among contemporaries. Nevertheless, it seems reasonable to suppose that whatever ideas about justice are advocated by an outcomes theory should also apply to future citizens—particularly those in proximate generations. Location in time should not make a difference to the requirement of fair treatment. Utilitarians should include future as well as present people into their calculations about utility. Egalitarians should advocate policies that ensure that future citizens will get their equal shares. And Rawls's principle that requires inequalities to favour the least well off groups should, presumably, be applied to relations between generations. For example, it could be argued (as suggested in the second section) that well off citizens of the future could be expected to re-distribute some of their wealth in our favour—in particular, that they can be required to finance the pensions and medical care of the least well off of present generations.

However, these ideas about distribution between generations encounter two serious difficulties. The first is a problem about uncertainty. If we don't know how people of the future will fare, then how can we arrive at a just outcome? The second is a problem about the nature of the 'intergenerational social contract'. We can't reach an agreement with the young and unborn about intergenerational policies. They are not yet participants in the political process. What, then, justifies us in making policies that affect them, and why should they regard themselves as responsible for carrying out the obligations that we assign to them? These difficulties are particularly acute for outcome theories of justice in so far as they require distribution of resources between generations, but other approaches must also deal with them.

## **General Problems of Intergenerational Justice**

### **The Problem of Uncertainty**

There is no consensus about a just distribution of resources among contemporaries. But at least contemporaries are in the position to know how many people their society has to provide for, what its members want or need, and what resources they possess. With respect to future people this knowledge does not exist, or it is much more uncertain and incomplete. This is obviously so in the case of distant future generations, but even the

attempt of the *Intergenerational Report* to project present trends 40 years into the future is fraught with difficulties, and critics have complained that it fails to take into account possible changes in circumstance or policies that could have a significant effect on outcomes.<sup>39</sup> The rapidity of technological change means that we cannot even be sure what resources our children and grandchildren will need or what their objectives or desires will be. We cannot be sure what kind of country they will be living in, to what extent institutions will remain the same, and whether their ideas of justice will be the same as ours.

The fact that we can't be sure that citizens in 40 years time will be better off than us presents difficulties for a policy that would require them to contribute to our future well being. One response to the problem of uncertainty is to adopt a conservative understanding of the requirements of sustainability: to avoid actions that might harm future people, but to take minimal responsibility for their standard of living. It might be argued that we should not be expected to do much more for future people than to maintain and pass on our legal and political institutions—thus making it possible for them to live in a just, democratic society.<sup>40</sup> That future citizens will receive this legacy is not something that will happen as a matter of course. Maintaining just institutions requires that children be educated to respect them. It also means maintaining those social conditions and circumstances which underwrite the flourishing of a liberal, democratic society. It is reasonable to suppose that institutions of justice will not flourish if people of a society are impoverished or if their standard of living is drastically diminished, if they are suffering from the effects of serious environmental degradation, or if the social fabric is threatened by internal or external conflicts.<sup>41</sup> Preserving our institutions may prove to be a more demanding requirement than it first appears. It seems inevitable that any account of intergenerational justice, even one concerned mainly with transferring just institutions, will have to concern itself both with distribution of resources between generations and distribution among individuals within generations.

## **The Problem of Justifying an Intergenerational Social Contract**

Being just, at least for those who adopt an entitlement or outcomes theory (or a theory that combines the two approaches), requires sacrifices, and it is natural for people to wonder why they should be required to make them. Some philosophers, like Rawls or Gauthier, justify their theories of justice by reference to a contract or agreement which it would be rational for citizens to make with each other (whether they actually did so or not). Some argue that political societies are a means of satisfying general humanitarian obligations—obligations that all humans owe to each other.<sup>42</sup> Some think that members of a nation have a special bond which gives them a responsibility for each other.<sup>43</sup>

Some of these justifications seem incompatible with the very idea of intergenerational justice. We cannot make agreements or contracts with the young or unborn; we are not in relations of mutual exchange with them; and it is not obvious that community bonds include people who do not yet exist. Even a humanitarian belief in the universality of

human rights will not encompass unborn generations if a condition of having a right is being an identifiable individual.

Some of the same difficulties arise when we consider what duties our successors will have with respect to us. These successors, who are now children or unborn, have not been parties to any sort of social contract. They have not agreed to any policy concerning the distribution of resources between generations. They had no opportunity to debate or vote against these policies. Why then should they regard themselves as obliged to share their resources with us?

Most people do not doubt that there are intergenerational obligations. Nevertheless, difficulties concerning the nature and existence of an 'intergenerational social contract' raise questions about the extent of these responsibilities. Do we have a responsibility for the well being of future citizens that is similar to our responsibility for the well being of our contemporaries, or should we think of our obligations to our successors as being similar to the obligations we have to people in other countries? If the former, then according to most theories of justice, we have extensive responsibilities for their well being. If the latter, then a more minimal conception of our responsibilities may apply.<sup>44</sup> Such minimal responsibilities might arguably mean that we should avoid harming them, but it is not clear we would be obliged to ensure that their standard of living is comparable to ours. And they in their turn may have no special responsibility to us. 'Benefiter-pays' policies, by ensuring that each generation takes budgetary responsibility for itself, seem to fit this less demanding conception of the 'intergenerational contract'.

Some theorists, however, have presented four general considerations that might tell against this minimal conception of our obligations to:

- The young and unborn are our descendants. Most people have an interest in their children's and grandchildren's future well being and are likely to think that they have an obligation of some kind to make it more likely that these descendants will enjoy a decent standard of living and be in the position to fulfil obligations to *their* children and grandchildren. In other words, there seems to be a natural inclination to promote the well-being of our descendants. Rawls, for instance, in *A Theory of Justice* makes this natural inclination the basis of his view about justice between generations in a political society.<sup>45</sup> He argues that people will opt for a principle of justice which requires that people of each generation ascertain how much they should put aside for their successors by reference to what they would regard themselves entitled to claim from their predecessors.<sup>46</sup>
- Kant (1991)<sup>47</sup> and Waldron (2000) argue that 'proximity' gives people special moral duties to others—whether these are acquaintances, descendants or strangers. Living in close proximity with others means that our activities and policies will affect their well being, and vice versa. Proximity with others is likely to require sharing of resources and thus establishing a fair exchange that ensures that the needs of all can be met. Proximity in time may impose the same demands as proximity in space. Our successors will live

in the same land and use the same resources and this in itself gives us an obligation to leave them with their fair share and for them to provide us with our share.

- As noted above, some believe it should be a priority of political policy to maintain institutions of justice—particularly those institutions that we have a special responsibility for. Fulfilling this obligation gives us a duty to ensure that people of the next generations will have (at least) a decent standard of living and that they do not face crisis and conflict that could be caused by environmental degradation or large inequalities in living standards.
- Some argue that we have a duty of gratitude to our predecessors for the resources that they have provided for us. Discharging our duty means not only caring for them in old age, but passing on resources to our descendants as an obvious and appropriate way of reciprocating for the generosity of our forebears. Our successors in turn will have a duty of gratitude to us which requires them to fulfil similar responsibilities.<sup>48</sup>

These positions tend to support the perception that there is something like an intergenerational 'social contract' and that it requires us to ensure, so far as we can, that our successors will inherit a high standard of living as well as just, democratic institutions. It also tends to support the view that they, in their turn, will have to take responsibility for maintaining our standard of living into old age.<sup>49</sup>

## **Conclusion**

The following points are major ones arising in the preceding discussion:

- The questions of what, at bottom, is problematic about future generations facing a higher tax burden than us, and what is desirable about fiscal sustainability are both crucial to the general argument of the *Intergenerational Report*. These questions are not fiscal and economic, but philosophical ones which introduce issues about our moral obligations to future peoples.
- Implicit in the *Intergenerational Report* are two distinct rationales for fiscal sustainability—one that emphasises the importance of a goal of sustained well-being/quality of life into the next generation, and another that relies on a principle of 'benefiter-pays'. Each has its theoretical and practical strengths and weaknesses in providing support for fiscal sustainability.
- The goal of intergenerational 'sustainability' is a contested one with differing interpretations of its meaning, and consequently, the obligations that it imposes on us.
- The 'benefiter-pays' rationale, which requires that each generation pays for the resources it uses is, from a deeper theoretical point of view, best underwritten by conceptions of justice that emphasise what people are entitled to, or what people would agree to give in return for what they get from social arrangements ('mutual advantage').

The entitlements approach arguably has more plausibility as an account of justice, but those who take this approach have the problem of showing how the opportunities of present and future people can be made more equal.

- The goal that the present generation ensures that the well-being of the next generation's be sustained, seems best underwritten by a fair outcomes approach to justice. However, this approach requires that the distribution of resources *among* members of each generation, as well as the maintenance of just social institutions, be a major concern of policy-makers.

Perhaps the most important upshot of the preceding discussion is that matters like fiscal sustainability and equity, which seem at face value to be purely financial ones, are in reality highly philosophically and ethically laden. They are therefore subject to philosophical dispute and contestation.

## Endnotes

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1. *Charter of Budget Honesty Act 1998*, Sect 20.
2. *Charter of Budget Honesty Act 1998*, Sect 21.
3. *Intergenerational Report 2002–03*, Budget Paper No. 5, 14 May 2002, p. 6. It has been estimated that the required tax rise (on the *Intergenerational Report's* fiscal projections) would be five per cent over 40 years. See Ian McAuley, 'Death is Inevitable, Why Aren't Taxes? The Commonwealth's Intergenerational Report', at : <http://www.econ.usyd.edu.au/drawingboard/digest/0206/mcauley.html>
4. For example, containing the growth of the Pharmaceutical Benefits Scheme, and ensuring efficiencies in aged care and social safety net provision. *Intergenerational Report*, pp. 1–2.
5. For example, encouraging widespread participation in private health insurance, and private retirement savings. A few other measures are suggested as well, such as encouraging mature age participation in the labour force. *Intergenerational Report*, pp. 1–2.
6. See McAuley, op. cit. McAuley also argues that confining the discussion to purely budgetary concerns, and Commonwealth budgetary ones moreover, oversimplifies the issues and limits the sorts of policy responses that will be seen as viable. A more appropriate discussion, he argues, would take a broader economic focus on resource allocation in both public and private sectors at state and commonwealth level.
7. See, for example, Pamela Kinnear, 'Ageing—will the real culprit please stand up?' at: <http://www.onlineopinion.com.au/2002/une02/Kinnear.htm>
8. The term 'generation' has a number of meanings which can be confused, see Norman Daniels, *Am I My Parents' Keeper? An Essay on Justice Between the Young and the Old*, Oxford University Press, New York, 1988. In the *Intergenerational Report* and this paper, the term has the sense of 'age cohort'—a class of individuals whose birth date falls within a designated period (for example, between 1960 and 1980).
9. *Intergenerational Report*, p. 2.

10. *ibid.*, p. 14.
11. *ibid.*
12. *ibid.*, p. 13.
13. *ibid.*, p. 1.
14. *ibid.*, pp. 14–15.
15. *ibid.*, p. 2.
16. As these notions of sustainability are defined in the *Intergenerational Report*.
17. Steve Dowrick and Peter McDonald, 'Comments on the Intergenerational Report', 2002, at <http://acpr.edu.au/Publications/intergenReport.pdf>.
18. It can also be noted that decreasing the prospect of passed on debt through decreasing the level of public expenditure (e.g. on health or education) may not act to sustain future quality of life if future people have to pay for these things from private outlays (e.g. private education, private health insurance, road tolls, etc.). Cost-shifting from public to private does not necessarily serve sustained life quality, even if it reduces the prospect of higher taxes for future generations.
19. World Commission on Environment and Development, *Our Common Future*, Oxford University Press, 1987.
20. See, for example, Bryan G. Norton, 'Environmental Ethics and the Rights of Future Generations', *Environmental Ethics*, no. 4, 1982, pp. 319–37 and Wilfred Beckerman and Joanna Pasek, *Justice, Posterity, and the Environment*, Oxford University Press, 2001. However, most of the problems economists and philosophers have seen relate to duties to distant future generations. The scope of the *Intergenerational Report* extends only 40 years into the future, and many of the people who will be taxpayers in 2042–3 are now alive.
21. Beckerman and Pasek, *op. cit.*; Wilfred Beckerman, 'Economists and Sustainable Development: the OECD Report on Policies for Sustainable Development', *World Economics*, vol. 2, no. 4, 2001, pp. 1–17.; Wilfred Beckerman, 'Intergenerational Equity and the Environment', *The Journal of Political Philosophy*, vol. 5, no. 4, 1997.
22. Michael Jacobs, 'Sustainable Development as a Contested Concept', in A. Dobson (ed.), *Fairness and Futurity*, Oxford University Press, 1999, pp. 21–45.
23. See, for example, J. Pezzey, *Sustainable Development Concepts: An Economic Analysis*, World Bank Environment Paper No. 2, Washington DC, World Bank, 1992.
24. Some proposed and currently existing intergenerational initiatives subscribe to such an 'equal opportunity for wellbeing' view, for example, the Blair government's newly initiated system of start-up grants for young people who are about to become independent. See, for example, David Nissan and Julian Le Grand, *A Capital Idea: Start-up Grants for Young People*, Fabian Society, London, 2000.
25. Wilfred Beckerman, is one economist who argues that the goal of sustainability is less important than obligations to contemporaries. See Beckerman, 1997, *op. cit.* and Beckerman, 2001, *op. cit.*

26. Intergenerational justice may be a two directional relationship—focused not only on what the current generation owes future ones, but on what future generations should forego, in order that the needs of current people are met.
27. The *Intergenerational Report* does allow that debt which funds productive investment for the future is permissible (pp. 14–15), but the implications for policy making are not further discussed.
28. The *Intergenerational Report* takes it as a given that the current tax burden should not be increased from its 1996–97 level. For a criticism of this fiscal disposition see McAuley, *op. cit.*
29. For a fuller discussion of this pricing and cost-control issue in relation to the Pharmaceutical Benefits Scheme, see Maurice Rickard, 'The Pharmaceutical Benefits Scheme: Options for Cost Control', *Current Issues Brief*, no. 12, Department of the Parliamentary Library, 2001–2002.
30. The most well worked out example of a mutual advantage, rational bargain conception of justice and fairness can be found in David Gauthier, *Morals by Agreement*, Oxford University Press, 1986. This tradition goes back to the work of Thomas Hobbes' *Leviathan*.
31. Some theorists have treated government welfare programs as institutions based on this principle. For example, David Thomson, 'Generations, Justice, and the Future of Collective Action', in P. Laslett and J. S. Fishkin (eds.), *Justice Between Age Groups and Generations*, Yale University Press, 1992, regards pensions and other benefits to the aged as payouts by a government run trust fund that gives individuals the reasonable expectation of being able to draw out at least as much as they contributed through their taxes. If this expectation is thwarted—if, for example, working age cohorts have to foot the bill for an exceptionally large cohort of old age pensioners—then they have good reason for refusing to support an institution that gives them such a bad bargain (unless their loss has been compensated by benefits from other sources). A mutual benefits approach thus suggests that people now of working age have good reason for either saving for their own retirement (as the *Intergenerational Report* proposes) or contributing more in taxation to a fund that will provide for their care in old age.
32. Moreover, to insist on a favourable cost benefit/ratio before making sacrifices for the sake of future people could result in difficulties in achieving sustainability: for example, where solving environmental problems turns out to be a costly exercise for present generations from which they cannot get returns proportional to their sacrifices.
33. For further critical comment on mutual advantage views (sometimes referred to as 'justice as reciprocity'), see Brian Barry, *Theories of Justice*, Harvester-Wheatsheaf, 1989, and Allen Buchanan, 'Justice as Reciprocity Versus Subject-Centred Justice', *Philosophy and Public Affairs*, no. 19, 1990, pp. 227–52.
34. Such a scheme, they admit, would require considerable government expenditure, but they regard it as proper to demand that people who have benefited from a stakeholder policy make a return. Bruce Ackerman and Anne Alstott, *The Stakeholder Society*, Yale University Press, 1999.

35. See, for example, the suggestions made by Mark Latham, 'Stakeholder Welfare', *Quadrant*, no. 45, 2001, pp. 14–21.
36. See Nissan and Le Grand, op. cit.
37. Richard Norman, *Free and Equal*, Oxford University Press, 1987.
38. John Rawls, *A Theory of Justice*, Oxford University Press, 1972. Supporters of Rawls could endorse a 'benefiter-pays' policy if, for example, it freed up capital or government finances for projects that benefit the least well off. They might also, by the same reasoning, favour measures to contain government spending. But those who advocate such policies would have to establish that they have a better chance of improving the well being of least well off groups than do other available alternatives.
39. See McAuley, op. cit.
40. See Beckerman and Pasek, op. cit.
41. See Roger Paden, 'Rawls's Just Savings Principle and the Sense of Justice', *Social Theory and Practice*, vol. 23, 1997, pp. 27–52.
42. Robert E. Goodin, 'What Is So Special about Our Fellow Countrymen?', *Ethics*, no. 98, 1988, pp. 663–86.
43. Avner De-Shalit, *Why Posterity Matters: Environmental Policies and Future Generations*, Routledge, 1995.
44. This assumes a conventional idea about our responsibilities to people in other countries, namely, that we have a far greater responsibility for the well being of fellow citizens than for foreigners. These ideas, though, have been challenged by Darrel Moellendorf, *Cosmopolitan Justice*, Westview Press, 2002; Charles Jones, *Global Justice: Defending Cosmopolitanism*, Oxford University Press, 1999; and many others.
45. Rawls, op. cit., p. 284ff.
46. The idea that people of the future can have duties to their predecessor raises an intriguing question: do we have duties to the dead? This question is given an affirmative answer by Annette Baier, 'The Rights of Past and Future Persons', in E. Partridge (ed.), *Responsibilities to Future Generations*, Prometheus Books, 1980, pp. 171–86; and Joel Feinberg, *Harm to Others, the Moral Limits of the Law*, Volume 1, Oxford University Press, 1984, Chapter 2.
47. Immanuel Kant, *The Metaphysics of Morals*, M. Gregor (trans.), Cambridge University Press, 1991, p. 121–2.
48. Lawrence C. Becker, *Reciprocity*, Routledge, 1986.
49. It might be added that some of these ideas about the basis for our obligations to future citizens (and their obligations to us) might be used to question common beliefs about obligations to people in other countries. The global economy has brought us in close proximity to people who may be far removed from us in space and it could be argued that by so doing it has widened the scope of our obligations. A duty to maintain just institutions is likely to give us some responsible for ensuring that people in other countries can also maintain and establish just institutions.



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