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Protecting long-term investment under persistent pressures: Responsible decision-making for future generations

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Protecting long-term investment under persistent pressures: Responsible decision-making for future generations

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Abstract

This article examines how persistent economic, geopolitical, climate-related, and demographic pressures shape public spending, borrowing, and investment decisions and their implications for future generations. Governments increasingly face decisions in which responding to immediate pressures competes with sustaining investment that supports future economic capacity. Intergenerational fairness is understood in terms of the economic capacity transferred to future generations. These responses are frequently financed through increased borrowing. Rising public debt and higher servicing costs increase the share of resources committed to existing obligations, while demographic change increases expenditure and gradually reduces the relative size of the tax base. At the same time, stabilisation measures responding to current shocks concentrate spending within constrained budgets, exposing long-term investment to reallocation. The article argues that preserving economic capacity depends on how policy responses are designed. The composition of spending determines whether interventions support only immediate stabilisation or also strengthen productivity and economic stability. The way investment is delivered, including through public-private financing arrangements, affects its scale and allocation, while the financing structure determines whether investment is sustained or remains vulnerable within the budget process. Intergenerational fairness, therefore, depends on whether policy responses address immediate pressures while sustaining the economic capacity available to future generations. Responsible decision-making requires evaluating policy choices not only in terms of their immediate effects but also their implications for future economic capacity.

Keywords: intergenerational fairness, public investment, fiscal policy, economic capacity, public finance

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Intergenerational fairness under structural strain

Governments increasingly face decisions in which responding to immediate economic, geopolitical, demographic, and climate-related pressures requires substantial public spending, while the same resources are needed to sustain investment that supports future prosperity. Some responses address urgent needs but increase future obligations. Others combine immediate stabilisation with investment that strengthens the economy's ability to generate income, manage risks, and sustain public services over time. Responsible decision-making therefore involves determining how current interventions can address immediate pressures while preserving the economic capacity available to future generations.

Intergenerational fairness depends on how current decisions on public spending, borrowing, and investment shape the economic capacity carried forward over time. Economic capacity, as understood in this article, refers to the productive, fiscal, and institutional resources available to future generations, including infrastructure, human capital, technological capability, fiscal flexibility, and the ability to respond to future shocks. Governments respond to economic, geopolitical, and climate-related pressures through immediate policy measures that require allocating public resources within constrained budgets, while demographic change increases expenditures and gradually reduces the relative size of the tax base. These responses differ in their intertemporal effects. Some absorb shocks and stabilise current economic and social activity while increasing future obligations; others combine stabilisation with investment that supports income generation, risk management, and essential economic functions over time.

The way these responses are chosen and structured determines what resources are used today, what obligations are carried forward, and how economic capacity is shaped for future generations. The question is therefore not only economic but also one of responsibility. Future generations cannot participate in current budget decisions, yet they will experience their consequences through the infrastructure they inherit, the public debt they service, and the risks they must manage. Current generations therefore exercise stewardship over resources that shape future opportunities and constraints. Intergenerational fairness provides a framework for evaluating these consequences.

Public debt provides a direct channel for this transfer. Recent shocks provide a clear illustration. Fiscal responses to the COVID-19 pandemic, the cost-of-living pressures following the war in Ukraine, and climate-related shocks requiring emergency response and infrastructure repair have led to a sustained increase in sovereign borrowing across advanced economies. According to the International Monetary Fund (IMF), global public debt rose to almost 94% of GDP in 2025 and is projected to approach 100% of GDP by 2029, reflecting sustained fiscal pressures and rising interest costs. This accumulation is driven largely by major economies and increases the volume of debt that must be refinanced as existing obligations mature.

In recent years, borrowing costs have increased as interest rates have risen in response to higher inflation and tighter monetary policy, alongside higher debt levels that can raise perceived fiscal risk. As this larger stock of debt is rolled over, governments refinance maturing obligations at higher rates, thereby increasing debt servicing costs. According to the IMF, interest payments rose from around 2% to nearly 3% of global GDP between 2021 and 2025, reflecting the shift from low-rate financing to higher borrowing costs. Over a longer horizon, long-term bond yields in advanced economies have increased across countries over the past decade, more than doubling in several major economies, so that a growing share of public debt is now refinanced at higher rates than those prevailing when it was issued. Additional increases have followed recent geopolitical shocks, including a rise of around 60 basis points in United Kingdom government bond yields within a short period after the escalation of conflict in the Middle East in early 2026.

These developments increase the share of public expenditure allocated to interest payments. Debt obligations persist over time and must be met through both interest payments and the repayment or refinancing of maturing debt. In practice, a large share of this debt is refinanced, requiring governments to secure funding under prevailing market conditions. As a result, a growing portion of future budgets is effectively pre-committed to servicing and rolling over existing obligations.

Demographic trends reinforce these constraints through changes in the composition of the population. Ageing increases the number of individuals receiving pensions and healthcare relative to those in employment and contributing to public revenues. The old-age dependency ratio, defined as the number of people aged 65 and over relative to the working-age population, is projected by the OECD to rise from around 33 to more than 50 per 100 workers in OECD economies by 2050.

This demographic shift affects public finances through two channels. Expenditure on pensions and healthcare increases as a larger share of the population becomes eligible for age-related benefits, while the number of contributors relative to beneficiaries declines, reducing the growth of tax revenues. Projections from the OECD indicate that public pension expenditure will increase in most advanced economies, rising on average from around 8.8% of GDP in 2023-24 to approximately 10% by 2050. Evidence from the European Commission shows that total age-related public expenditure in the EU, including pensions, healthcare, and long-term care, is projected to increase from 24.4% of GDP in 2022 to 25.6% by 2070.

These fiscal and demographic constraints exist within the same budgetary framework as current responses to economic, geopolitical, and climate-related shocks. Measures introduced to stabilise household incomes and energy prices during the cost-of-living crisis required substantial and immediate public spending, including subsidies, transfers, and price interventions to contain the impact of rising energy and food costs. Climate-related shocks require similar immediate allocation of resources, particularly for emergency response, reconstruction, and infrastructure repair following extreme events. Within a constrained fiscal envelope, these responses require reallocation of resources across expenditure categories. In practice, increases in spending on stabilisation and recovery are offset by adjustments elsewhere, which potentially reduces or delays long-term investment.

When a larger share of expenditure is directed towards debt servicing and immediate stabilisation, the resources available for other uses decline. Investment in infrastructure, innovation, and climate-related investment, including both mitigation and adaptation, depends on sustained allocation over time, while stabilisation measures require rapid and often large-scale funding. Within a constrained fiscal envelope, this leads to reallocation away from investment. As public investment is not pre-committed in the same way as pensions or healthcare, it becomes the primary adjustment variable when pressures intensify.

Climate-related investment illustrates the implications of this reallocation over time. Delayed investment in mitigation and adaptation increases exposure to physical risks, including extreme weather events, disruption to food and water systems, and population displacement. At the same time, insufficient investment in low-carbon infrastructure and energy systems raises the cost of transition and increases the scale of future adjustment required. Current allocation decisions therefore determine both the level of future risk and the cost of responding to it.

Taken together, these dynamics link current responses to immediate pressures with future economic capacity. When public resources are increasingly concentrated on debt servicing and immediate stabilisation, and investment is reduced or delayed, the capacity to support productivity growth and manage future risks declines. Intergenerational fairness depends on whether these allocation decisions preserve that capacity over time. For decision-makers, this means evaluating current spending choices not only in terms of their immediate effects but also in terms of their implications for future economic capacity.

Decision-making under overlapping pressures

The fiscal pressures identified in the previous section shape both the allocation of public resources and the way decisions are made. Governments operate in an environment where multiple demands require simultaneous response. Economic stabilisation, energy security, climate risks, and geopolitical developments generate concurrent claims on policy attention and public resources, each requiring immediate response and allocation of resources.

This simultaneity shapes how decisions are made in practice. Policy responses must be designed and implemented within limited timeframes, often under uncertainty and incomplete information. As a result, priority is often given to measures that deliver rapid and visible effects. This influences how trade-offs are evaluated. Actions that stabilise current economic and social activity and produce immediate effects are more likely to be selected, while measures that require sustained commitment and deliver benefits over longer horizons are more difficult to prioritise.

Risk assessments illustrate the scale and interaction of these pressures. The UK National Risk Register (2025) and the World Economic Forum Global Risks Report (2026) identify a growing interaction of risks across economic, geopolitical, technological, and environmental domains. These risks require concurrent policy responses, often within overlapping timeframes. Policy decisions are therefore made across multiple fronts simultaneously, limiting the ability to sequence actions and concentrate resources over time.

This combination of simultaneous demands and limited fiscal space reduces the scope for sustained allocation to any single objective. Investment, which depends on continuity and predictability, becomes more difficult to sustain when resources are repeatedly redirected towards alleviating immediate pressures.

This environment does not eliminate long-term considerations, but it constrains how they are incorporated into decisions. Long-term investment requires consistent allocation, coordination across policy areas, and stability of direction. When decisions are repeatedly shaped by immediate pressures, these requirements are harder to maintain. As a result, the selection, design, and financing of policy responses determine whether current spending contributes only to immediate stabilisation or also supports future economic capacity. For decision-makers, this requires explicit consideration of long-term consequences when allocating resources under uncertainty and competing demands.

A framework for responsible decision-making under persistent pressures

The practical nature of these choices can be illustrated through the energy crisis. Governments faced decisions about whether available resources should be directed primarily towards temporary household subsidies or whether part of the response should also support investment in renewable energy generation, electricity networks, and storage capacity. Both approaches can contribute to short-term stabilisation, but they differ in their effects on future energy security, fiscal exposure, and economic capacity. Responsible decision-making requires consideration of these longer-term consequences alongside immediate needs.

Responsible decision-making under persistent pressures can be organised around three practical questions. First, what types of spending should be prioritised within constrained budgets? Second, how should investment be delivered? Third, how should investment be financed? Together, these dimensions provide a framework for evaluating whether policy responses support immediate stabilisation only or also preserve economic capacity for future generations.

The composition of spending is the first determinant. Some policy responses address immediate pressures without altering the underlying structure of the economy, while others combine stabilisation with investment that supports income generation, risk management, and essential economic functions over time. Evidence shows that reallocating public expenditure within constrained budgets towards investment and other growth-enhancing areas can generate substantial gains in output over time (IMF, 2025). The energy crisis illustrates this distinction. Measures centred on subsidies and price interventions support households and firms in the immediate period and are necessary to stabilise economic activity. However, they do not reduce exposure to external shocks. Investment in renewable energy, grid infrastructure, and storage capacity operates over a longer horizon, supporting economic activity through demand and employment while reducing dependence on external energy sources and lowering future costs. The key issue lies in how these responses are combined within constrained budgets, as sustained investment alongside necessary stabilisation determines whether current policy responses also contribute to future economic capacity.

The structure of delivery is equally important, particularly under fiscal constraint. When governments rely exclusively on direct public expenditure, investment competes within constrained budgets and remains exposed to reallocation. Alternative approaches involve the use of incentive-based or co-financed models that mobilise private capital alongside public resources. Public-private partnerships, targeted subsidies, and regulatory frameworks that support investment can extend the scale of capital formation without placing the full burden on public budgets. This affects both the level and the distribution of investment over time. By shifting part of the investment effort beyond direct public expenditure, governments can support capacity-building while managing fiscal pressures.

The structure of financing determines whether investment is sustained over time or remains vulnerable to short-term reallocation. When investment is financed through general budgetary processes, it competes directly with other expenditures and can be reduced when pressures intensify. Instruments that link borrowing to defined investment projects, such as use-of-proceeds bonds, including green, social and sustainability bonds, introduce constraints within the budgetary process. Funds are allocated to specific programmes and are subject to requirements for project selection, monitoring, and reporting. This reduces the scope for reallocating resources once financing has been secured and supports continuity of funding over time.

These dimensions are interlocked. Investments that strengthen future capacity must be selected through the composition of spending, supported through appropriate delivery structures, and protected through financing arrangements that ensure continuity. When these elements are aligned, policy responses to immediate pressures can support both current stabilisation and future economic capacity.

The same logic applies to demographic pressures. Ageing populations increase demand for healthcare and long-term care while reducing the relative size of the workforce contributing to public finances. Responses that rely solely on expanding expenditure increase fiscal pressure without improving underlying capacity. By contrast, investment in productivity-enhancing systems, including AI-assisted healthcare and care delivery, can reduce labour intensity, improve efficiency, and support the sustainability of public finances over time. As with energy systems, the design, delivery, and financing of such investments determine whether current spending contributes to future economic capacity.

Under persistent pressures, preserving intergenerational fairness depends on these design choices. The selection, delivery, and financing of policy responses determine whether current spending stabilises existing conditions only or also strengthens the economic capacity carried forward over time.

Conclusion

Persistent economic, geopolitical, climate-related, and demographic pressures increasingly compete for public resources. Under these conditions, governments face difficult decisions about how to allocate limited fiscal capacity between immediate needs and long-term investment.

This article has argued that intergenerational fairness depends on whether these decisions preserve the economic capacity available to future generations. Investment becomes vulnerable when resources are increasingly directed towards debt servicing and immediate stabilisation, while sustained investment remains essential for future income generation, fiscal sustainability, and resilience to future risks.

Responsible decision-making under persistent pressures requires considering three interrelated dimensions: the composition of spending, the structure of delivery, and the structure of financing. Together, these determine whether policy responses address only immediate pressures or also strengthen the economic capacity that is carried forward over time.

Decisions taken today shape the opportunities, obligations, and risks transferred to future generations.

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