The Centre for Enterprise, Markets and Ethics

ENTERPRISE AND FAITH SERIES

Government Debt

A Neglected Theme of Catholic Social Teaching

Philip Booth, Kaetana Numa, Stephen Nakrosis
And Richard Turnbull

ISBN: 978-1-910666-21-0

Published by:
Centre for Enterprise, Markets and Ethics, 31 Beaumont Street, Oxford OX1 2NP

Design by Push Start Marketing Ltd, 46 Market Square, Witney,
Oxfordshire OX28 6AL

Printed in the United Kingdom by Foremost Print Ltd, Unit 9a, Vantage Business

Park, Bloxham Road, Banbury, Oxfordshire OX16 9UX

First Edition, 2021

The Centre for Enterprise, Markets and Ethics

We are a think tank based in Oxford that seeks to promote an enterprise, market economy built on ethical foundations.

We undertake research on the interface of Christian theology, economics and business.

Our aim is to argue the case for an economy that generates wealth, employment, innovation and enterprise within a framework of calling, integrity, values and ethical behaviour, leading to the transformation of the business enterprise and contributing to the relief of poverty.

We publish a range of material, hold events and conferences, undertake research projects and speak and teach in our areas of concern.

We are independent and a registered charity entirely dependent on donations for our work.

Our website is www.theceme.org.

For further information please contact the Director, Revd Dr Richard Turnbull, at:

The Centre for Enterprise, Markets and Ethics
First Floor, 31 Beaumont Street,
Oxford OX1 2NP

About the Authors

Philip Booth

Philip Booth is the Director of the Vinson Centre for the Public Understanding of Economics, Professor of Economics at the University of Buckingham and Director of Catholic Mission and Professor of Finance, Public Policy and Ethics at St Mary's University, Twickenham. He is also senior academic fellow at the Institute of Economic Affairs. Philip has previously worked at the Bank of England and been Associate Dean of Cass Business School. He is a Fellow of the Institute of Actuaries and of the Royal Statistical Society.

Kaetana Numa

Kaetana Numa is Research Fellow at the Centre for the Study of Governance and Society at King's College London. Her PhD in Political Economy (King's College London) investigated the extent and effects of fiscal illusion. Kaetana previously headed a fiscal policy unit at the Lithuanian Free Market Institute and was a Research Fellow in Christian social thought and economics at St Mary's University, Twickenham.

Stephen Nakrosis

Stephen Nakrosis is currently working on his doctorate at St Mary's University, Twickenham, studying the morality of government debt. He is employed as a reporter for a financial newswire in New York City.

Richard Turnbull

Richard Turnbull is the Director of the Centre for Enterprise, Markets and Ethics. He holds degrees in Economics and Theology and a degree of Doctor of Philosophy in Theology from the University of Durham. He has authored or edited numerous books and articles, including an acclaimed biography of the social reformer, Lord Shaftesbury. He is a visiting Professor at St Mary's University, Twickenham and a Fellow of the Royal Historical Society.

Contents

Introduction

In recent decades, a significant number of developed countries have accumulated high levels of government debt. Historically, countries have borrowed to fight wars or finance profligate spending. However, the development of modern debt markets and instruments, together with post-war thinking in economics, has changed both the nature of government borrowing and indebtedness, as well as moral perception of the implications.

Government borrowing effectively involves the transfer of the cost of provision of goods, services and welfare payments to future generations. There may be situations in which this is justified. Whether or not this is so, it is important that Catholic social thought and teaching,* and indeed the wider Christian tradition, engage with this issue. Over the centuries there has been discussion of economic problems, such as inflation, among those exploring Catholic social thought. In recent years the Catholic Church has become very involved with the question of government indebtedness in less developed countries, but there has been relatively little discussion in respect of the impact it has in developed countries. This is despite the fact that, on occasion, the extent of debt has severely undermined democratic accountability and the ability of governments to undertake the key functions demanded of them in Catholic social teaching.

* 'Catholic social teaching' usually refers to the formal body of church teaching, 'Catholic social thought' to wider scholarly and intellectual reflection. This publication follows suit but there are clearly areas of overlap.

Chapter 1

The characteristics and consequences of government debt

Growth of government debt often goes unnoticed – the spending decisions that lie behind it are more likely to feature in headlines and comment. In addition, government debt may be related to more hidden costs, such as pensions and health care. This chapter reflects on the way government debt has evolved, the impact of the hidden costs, and the underlying causes and financing of the debt.

1.1 The recent evolution of government debt

Public attention to government debt is often sparked during difficult economic times. This was the case in the early 1980s, when Latin American countries were unable to service their debt and stood on the brink of default. In 2009, the European sovereign debt* crisis threatened the future of the eurozone – an episode from which it has not really recovered. Government debt has also been much discussed during the Covid crisis, given the unprecedented public spending on furlough and business support. This has led many to question whether further increases in government debt – the implications of which may have been clouded by low interest rates – are sustainable.

However, during better economic times, problems with government debt do not disappear. In between crises, many countries have failed to reduce debt, so that each new crisis leads to its growing to higher levels. Furthermore, what might be termed ‘implicit debt’, in the form of future pensions and health-care liabilities, accumulates regardless of economic circumstances. Individual countries also go through phases of increasing debt dramatically, but this does not necessarily reach the headlines unless so widespread or serious that there is a crisis. Perhaps in this way, as in others that will become clear, there are similarities with environmental crises.

* The terms ‘government debt’, ‘national debt’ and ‘sovereign debt’ will be used interchangeably.

Table 1 shows historical public debt data in five countries: the United Kingdom, the United States, Japan, Greece and Brazil. As might be expected, debt tends to rise in time of war. Indeed, the history of the UK national debt from 1700 to 2019 can more or less be explained by three wars and a financial crisis: debt increased dramatically after the Napoleonic Wars, the First and Second World Wars and the financial crisis of 2008. In peacetime, government debt levels tended to fall – though not after the financial crisis. For a number of countries, however, debt has either grown in recent years or not been reduced during peacetime.

	United Kingdom	United States	Japan	Greece	Brazil
1800	176.8	18.1	-	-	-
1820	260.0	13.9	-	-	-
1840	154.7	0.2	-	-	-
1860	115.5	1.4	-	-	-
1880	65.4	17.5	34.0	-	99.0
1900	32.4	6.6	21.5	218.1	54.9
1913	27.9	3.3	53.6	64.7	37.7
1920	137.8	27.9	25.6	-	36.2**
1939	149.7	44.0	71.2	77.8	30.8
1950	216.9	87.5	14.0	23.6***	10.6
1970	73.2	35.7	12.0	24.7	-
1990	28.8	62.0	67.0	73.2	65.7
2000	37.0	53.0	143.8	104.9	68.5
2010	75.7	94.7	215.8	146.3	63.0
2020	108.0	131.2	266.2	205.2	101.4
2025*	117.0	136.9	264.0	165.9	104.4

TABLE 1: GOVERNMENT DEBT AS PERCENTAGE SHARE OF GDP AT MARKET PRICES, 1800–2025

Sources: 1800–2010: *IMF Data Mapper: Historical Public Debt Database*; 2020–5: *IMF Data Mapper: World Economic Outlook*

* projection ** data for 1923 *** data for 1952

In considering the level of national debt it is also necessary to take into account defaults and inflation. These are ways of reducing government debt without repaying it 'honestly'. Default involves countries not paying the obligations demanded by debt contracts. Inflation leads to a country repaying debt in devalued money. In the UK, for example, the price level doubled between 1974 and 1979. Thus the fall in the debt-to-national-income ratio in this period was in many ways illusory: governments were devaluing their debt using the mechanism of inflation, and repaying the holders of government bonds with money that had a lower value. Japan defaulted on its debt following the Second World War and there were other defaults among the countries in Table 1.

Since 2009, Japan has been the first developed modern economy in a peaceful period to sustain a debt level above 200 per cent of GDP. Meanwhile, the Greek situation is probably similar to the regular debt crises seen in South and Central America. Although post-war Greece managed to keep debt below 30 per cent of GDP until the 1980s, debt then rose rapidly, hovering around 100 per cent from 1993 before surging after the financial crisis and crossing the 200 per cent threshold. It is only as a result of bailouts, restructuring and intervention by outside economic agencies that the situation has been stabilised.

In the decade following the financial crisis, government debt did not return to pre-crisis levels – indeed, in many countries it rose further even after the worst had passed. Between 2007 and 2019, government debt as a share of national income doubled in the UK (42–85 per cent), with similar trends displayed in the USA (65–109 per cent), Greece (103–181 per cent), Japan (175–238 per cent) and Brazil (64–90 per cent).[1] Even in the period 2014–19, after the bailouts of banks at the height of the financial crisis, it was only in Germany that government debt fell.

The challenge of government debt is not simply historic. In the UK, the Office for Budget Responsibility (OBR) projects government debt forwards for 50 years in their annual Fiscal Sustainability Report. They assume that tax and spending policies remain the same; that is, for example, that pensions, tax brackets and health-care spending continue to be uprated in line with current policy. This demonstrates what may happen to the national debt as demographics change and there are fewer taxpayers and more elderly people in receipt of pensions and health care. Even before the pandemic, government debt in the UK was forecast to reach 283 per cent of GDP by 2067.[2] When the 2020 Fiscal Sustainability Report was produced as the pandemic was just beginning, that figure was revised to around 400 per cent.[3] To keep the debt under control, there would need to be huge cuts in government spending or increases in taxation over the next generation. Indeed, the OBR projections suggest that, even with large increases in taxation to levels well above those experienced in modern British history or in other developed countries, there would still have to be cuts in government services or transfer payments, including to those to whom promises of pensions or health-care provision had been made. These developments in public finances are a consequence of the creation of social security systems whereby pensions and health-care costs are financed by taxes from the following working generation. The implications of this will be discussed in Chapter 2.

In any given year the total amount of government debt increases if there is a budget deficit; that is, if annual government spending exceeds annual revenues. Italy, for example, has run deficits every year since the Second World War. As discussed below, there are various reasons for running deficits, and it is often argued that they may be reasonable and justified in the short term if followed by periods of budget surplus. However, as Figure 1 shows, over the last 25 years most of the example countries mainly ran budget deficits, with only fleeting periods of surplus (1999–2001 in the UK; 2000 in the USA; 2016–19 in Greece).

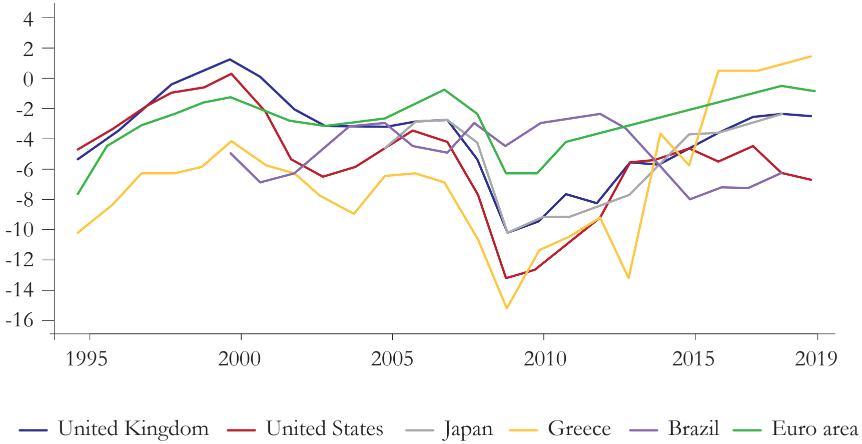

Figure 1: General government surplus as percentage of GDP (negative=deficit)

Source: OECD (2021), *General Government Debt*

Government debt as a percentage of national income is often regarded as a better measure than the absolute size of the debt. This increases if the deficit in any year as a percentage of national income is greater than the growth in national income. This is a low hurdle, but the increase in indebtedness as a proportion of national income in Table 1 shows that most countries have not been clearing it for any sustained period.

When government debt is accumulated, there is a genuine burden – it is not merely a paper transaction. First, interest has to be paid. Second, governments have to reduce spending or increase taxation, all other things being equal, in order for the burden of debt to be brought back down to lower levels. In 2019–20, government-debt interest in the UK amounted to around five times government spending on the environment, roughly the same as spending on defence and about half that on education. The moral question this poses is rarely discussed.

'When government debt is accumulated, there is a genuine burden – it is not merely a paper transaction'

It is often suggested that government debt in developed countries is not a burden because 'We owe it to ourselves'. This is not correct. First, a substantial proportion – about one-third in the UK – is owed to overseas holders of government debt. Second, even if that were not so, we do not owe it to ourselves: future taxpayers in general owe it to particular people, such as those who expect to receive a pension from a pension fund that has bought government bonds. This is a real burden for future taxpayers, and if governments defaulted or repaid debt with worthless money resulting from inflation, those pensioners in the future would not receive what they expected.

Alongside its concern for government indebtedness among poorer countries, the Catholic Church has also shown interest in sovereign debt in middle-income nations. When Mexico threatened to default in 1982, its debt stood at 48 per cent of national income. This brought the attention of the Catholic Church and numerous non-governmental organisations to the worsening debt situation in Latin American and African countries. By 1986, when the Pontifical Commission for Justice and Peace released the document *At the Service of the Human Community: An Ethical Approach to the International Debt Question*, Mexico's debt had risen to 78 per cent of national income. This level is much lower than debt levels in many richer countries today. However, it still sparked a crisis. Even though debt levels in richer countries have not reached levels at which default is being threatened or feared imminent, many of the problems discussed below, such as intergenerational justice, are even more serious in their case. A country does not have to be faced with imminent disaster for its debt to be ethically problematic.

1.2 Future pension and health-care costs

Official government debt is not the only obligation a government has. A feature of Western countries in the post-war period is that they have established social-insurance systems whereby individuals accumulate rights to a pension and health care but, unlike in the private sector, no money is set aside to meet these costs. In other words, the costs are met from current taxation and the benefits not funded as they accrue in the system. Additionally, governments, again unlike the private sector, do not have to account for these obligations. These systems can remain stable if the population structure does not change. However, if the number of young people falls relative to that of older people, these costs can become a serious burden. Some countries – such as Japan, Germany, Italy and most of those of Central and Eastern Europe – are facing rapid population ageing. In such circumstances, the obligations increase but the means to finance them will deplete.

As these pension and health-care obligations remain hidden from public view and scrutiny, they are sometimes termed 'implicit government debt'. Longer life expectancy and more retirees are, of course, welcome developments, but pose a problem for government finances because no funding has been set aside to pay for future pension and health-care commitments. The nature of this form of debt can easily be illustrated by policy decisions taken in the early 2000s. In countries such as Argentina, Poland and Hungary, individuals had their privately invested pension funds confiscated by the government, which used them to repay debt, thus making it look smaller. Governments then made promises to replace these pensions. In most private-sector contexts, this would be called an 'off-balance-sheet' liability and would have to be accounted for.

Implicit debt is hard to quantify, not least because it depends on assumptions regarding future policy decisions. One estimate placed *total* US debt at 500 per cent of national income in 2014 – about five times the level of explicit debt.[4] Estimates do vary from country to country and depend on the method used to calculate the obligations, but there is some support for this ratio more generally across a range of countries.[5]

It could be argued that governments do not have to honour those obligations, and implicit debt could be reduced by simply changing entitlements. However, this is another moral question disguised beneath sovereign debt, and would be a form of debt default offensive to distributive justice, given the reasonable expectations of those who have made contributions to state pension schemes during their working lives.

It is worth mentioning that the Catholic former Prime Minister of Ireland, John Bruton, explicitly raised the issue of government debt in a lecture he gave in April 2019, noting that: 'Too often the Church takes the easy route and leaves that particular moral question to politicians ... The Church should apply to fiscal policy the same sense of intergenerational justice that it applies to environmental policy.' He specifically related this to 'piling up unpayable pension obligations'.[6]

1.3 The causes and financing of government debt

Before moving on, in Chapter 2, to examine the moral implications of government debt, it is necessary to consider why governments accumulate it. This helps to determine its moral salience. Questions of government debt management are discussed in standard public finance textbooks, such as Gruber's *Public Finance and Public Policy*,[7] and the issues relating to the incentives of democracies to have a natural bias towards voting for governments that accumulate more debt are examined in Wagner's *Deficits, Debt and Democracy*.[8] The arguments can be very technical but the basic principles are as follows.

First, as noted (see section 1.1), debt is often accumulated in wartime. A just war is likely to involve preventing the common good of a country – or an ally – being gravely imperilled. All the resources of a country might be procured to fight the war. Historically, many countries did not maintain standing armies, hence a war required the financing of military equipment, manpower and logistics. As standing armed forces became a feature, these costs became permanent burdens on the exchequer. Additionally, war might involve stopping normal economic activity, the costs of which, including employment and income support as well as potentially direct support of industry, would be met by government. The war itself, including enemy action, might prevent normal economic activity taking place and considerably damage infrastructure. A similar situation to wartime might arise with a major catastrophic event, such as a natural disaster, financial crisis or pandemic.

In all these situations, the government may wish to borrow to provide support so that people can maintain an adequate standard of living – as has happened in many countries during the Covid pandemic. Government tax receipts will be lower and there may also be direct costs to meet – testing and vaccinating people in the case of the pandemic, reconstruction following an earthquake and bank rescue in the case of a financial crisis. In the UK, government-debt peaks have been closely related to wartime and the financial crisis; the next peak is likely to coincide with the pandemic.

A second reason why debt might be accumulated is that a government may simply be unwilling to raise the necessary taxes to finance its spending. In simple terms, electorates in a democracy may demand more government spending than they will pay in taxes. The moral implications might differ somewhat where governments borrow for reasons that will benefit future generations, for example by investing in transport facilities. These investments might be expected to increase economic growth in future years and thereby, perhaps, tax revenues. Issuing 'green bonds' to finance environmental investment is another example. The problem is how to assess competing moral claims.

A third reason for borrowing, at least in the short term, arises because economies can go through periods of below- and above-average growth. When growth is below average, unemployment might also increase, profits decrease and businesses go bankrupt. When this happens, tax receipts will tend to fall and government spending on welfare payments may rise. As a result, there may be a deficit. When growth is above average, the opposite may happen. Tax receipts may increase, government spending may fall and a surplus might be generated. Rather as for a household with fluctuating income, it does not make sense for a government to run a balanced budget in each individual year when its revenue and spending commitments are varying. On average, deficits arising from this effect should cancel out surpluses.

Related to this, governments often run deficits to try to 'stimulate' the economy when output or employment are below normal levels. This would typically be described as 'Keynesian' policy, and its beneficial effect is widely disputed. In theory, governments would run surpluses to 'cool' the economy when output or employment are above normal levels.

In developed countries, governments tend to finance their debt by selling bonds. However, government spending can also be paid for through the creation of money or, more commonly (especially since the financial crisis), by the central bank printing money to buy the bonds governments have issued. This can lead to inflation. Indeed, governments printing money to finance spending has been a common cause of hyperinflation in countries such as Zimbabwe and Venezuela. In essence, the increase in the supply of money reduces its value.

It is easy for governments, with the support of electorates, to have a natural bias towards accumulating debt rather than surpluses – to run deficits, say, when unemployment is high but not reduce them when the economy returns to normal. There is a degree of perverse incentive for governments to spend on the current account. It may also be easier to spend on infrastructure projects, even if the return is mediocre, than restrain spending, and so on. Spending without taxing allows some part of the electorate to benefit, at least in the short term, while postponing costs to a future date. The same applies to the accumulation of implicit debt in relation to pensions and health care – it is easier for governments to promise current workforces they will receive these in the future, and not set aside the capital to finance them, than it is to set up a fund. Future generations then bear the cost. Similarly with the issuing of bonds to finance environmental expenditure – the current generation claim credit for future benefits, but without considering the future costs of the debt.

Changing perceptions about their role is a further reason why governments accumulate debt. Significant sectors of health and welfare spending previously undertaken outside government, through intermediate institutions such as religious charities, are now almost exclusively an activity of government. Government borrowing allows politicians to pay for such services without imposing explicit and easily observable tax costs on the electorate.

The reasons why governments accumulate debt do matter when it comes to the moral aspects, especially in relation to distributive justice. The next chapter will discuss those moral questions that are legitimately within the domain of Catholic social thought and teaching.

Notes to Chapter 1

1 IMF, Global Debt Database, General Government Debt as percentage of GDP; https://www.imf.org/external/datamapper/GG_DEBT_GDP@GDD/OEMDC/ADVEC/WEOWORLD/GBR.
2 OBR, *Fiscal Sustainability Report – July 2018* (London: Office for Budget Responsibility, 2018).
3 OBR, *Fiscal Sustainability Report – July 2020* (London: Office for Budget Responsibility, 2020).
4 Michael D. Tanner, *Going for Broke: Deficits, Debt, and the Entitlement Crisis* (Washington DC: The Cato Institute, 2015).
5 For a thorough discussion of this question, see also Jagadeesh Gokhale, *The Government Debt Iceberg*, Research Monograph 68 (London: Institute of Economic Affairs, 2014).
6 See https://www.youtube.com/watch?v=JqARepLm888, at approximately 29 minutes.
7 Jonathan Gruber, *Public Finance and Public Policy*, 6th edn (New York: Worth, 2019).
8 Richard E. Wagner, *Deficits, Debt and Democracy* (Cheltenham: Edward Elgar, 2012).

Chapter 2

Moral questions across the generations

Government debt is widely discussed in economics – and to a lesser degree in other social sciences – around questions of fairness and justice. However, it has not been discussed within Catholic social teaching documents or, for that matter, in learned discourse on Catholic social thought. There is a similar lack of reflection in the wider Christian tradition.

2.1 Principles from creation

The creation order plays a significant role in any Christian understanding of the economy. This is recognised in both Catholic social thought and Protestant Christian traditions. The principles established in the creation give a form and shape to the divine economy – and weight to the ideas of work, wealth and production in the biblical narrative. These are significant features of any economic system and establish the basis for economic growth, investment, innovation and entrepreneurship. As a result, the creation order provides a basis for reflecting on economic principles. What follows will seek to apply the principles established in the creation to reflect, from a Christian position, on the place and limits of sovereign debt within an economic system.

'The creation order plays a significant role in any Christian understanding of the economy'

The creation order is established at the beginning of the biblical narrative. This appeal of the common Christian tradition to the first pages of Genesis also means that the divine economy must reflect something also of the very character of God. Importantly, these principles are relevant both in the state of perfection prior to the fall and in today's economy in an imperfect world affected by sin:

> These truths are decisive for man from the very beginning, and at the same time they trace out the main lines of his earthly existence, both in the state of original justice and also after the breaking, caused by sin, of the Creator's original covenant with creation in man.[1]

The key point from Pope John Paul II here is that the creation order is *decisive* – not just ideally but also practically – in today's world and economy. Consequently, discussions of the role of sovereign debt need to take account of God's original purposes in creation, his character and the dignity the created order bestows on the human person. We should be wary of levels of government debt that deny either the divine provision of the means of production (stifling the creativity and innovation implicit in that provision) or the dignity intrinsic to all humans created in God's image (through disproportionate impact on future generations). This is reinforced by a proper appreciation of the Christian view of the limited role of the state, discussed in Chapter 3.

Humans were placed at the pinnacle of creation by God and given the responsibility to act as stewards of the earth. As it says in Genesis, God told Adam and Eve to 'Be fruitful and increase in number; fill the earth and subdue it' (Gen. 1.28). This is known as the *cultural mandate*. The principle by which the goods of this world are there for all persons to enjoy is known in Catholic teaching as the 'universal destination of goods'. It is impossible for everybody to enjoy all the goods of the world. To ensure they are distributed peacefully and fairly, the Church – and governments that follow its teaching, even if only implicitly – prudently employ certain principles of distributive justice. These will involve freedom of contract in labour markets, private property, intervention by civil-society organisations where freedom of contract produces unsatisfactory results, and redistribution of resources to those in serious need, including by governments. These are processes

‘Not only work per se but economic productivity and wealth creation are part of God’s intention for every person’

in which all institutions within society, including the family, are involved.

Nevertheless, this cultural mandate implies some form of economic activity, a point reinforced by the wider idea of *creation mandates* – commands laid out in the creation order that establish a number of basic principles around human purpose, creativity, dignity and liberty. Examples would include the mandate to subdue (Gen. 1.28), to work (2.15) and to create wealth (2.10–15). This latter is, as will be seen, also reinforced by derivation from the very nature and work of God.

Hence in respect of the mandate to work, Dorothy Sayers argues that, for an intelligent carpenter, ‘the very first demand that his religion makes upon him is that he should make good tables.’[2] And for Josemaría Escrivá, the founder of Opus Dei, it is not possible to be a good Christian and a bad shoemaker.[3] John Calvin (1509–64) noted in his Commentary on Genesis 2.15:

> Here Moses adds that the earth was leased to man, on this condition, that he busies himself cultivating it. It follows from this that men were made to employ themselves doing something and not to be lazy and idle.[4]

There is, then, not only a creation mandate to subdue the earth but also to work. Abraham Kuyper (1837–1920), the Dutch neo-Calvinist and, indeed, Prime Minister from 1901 to 1905, remarked that ‘the common means of provision are latent in the created order and are discovered by human activity.’[5] This is a reminder of the centrality of entrepreneurship and wealth creation in the divine economy. Pope

Paul VI, in his 1967 encyclical *Populorum progressio*, also draws attention to this aspect of the created order and its link to entrepreneurship and production:

> By dint of intelligent thought and hard work, man gradually uncovers the hidden laws of nature and learns to make better use of natural resources … he is stimulated to undertake new investigations and fresh discoveries, to take prudent risks and launch new ventures, to act responsibly and to give of himself unselfishly.[6]

It follows from the idea of divine mandates to work and to subdue that there must also be a divine imperative to create wealth – otherwise the mandates to work and have dominion would be meaningless. And since the work of humanity is derived from the work of God, this would render his creative work also meaningless. Hence the principle of production, the ideas of creation and innovation, are part of God's character – since he is *the* creator – and, by derivation, also part of human purpose.

This is further developed in Genesis 2. In verse 15 the mandate to work is set out: 'The Lord God took the man and put him in the Garden of Eden to work it and take care of it.' This short verse has enormous implications. Here, preceding the entry of sin and the fall, is a divine economic command, a mandate not to work for no purpose but to harness the resources of the world – God's created world – in producing goods and adding value. Not only work per se but economic productivity and wealth creation are part of God's intention for every person. This basic requirement also has implications for any government programmes that encourage dependency rather than work – and for government debt itself.

Reinforcing this verse, there is a remarkable description of what God has provided for those who work with the means of production. Concerning the Garden of Eden and its setting, Genesis 2.8–14 recounts that God provided trees and water but also, between the headwaters of the rivers that flowed out from Eden, three precious materials: gold, aromatic resin and onyx. Verse 12 states that the gold found in the land of Havilah is good – divine endorsement of a crucial precious metal that makes absolute sense when the command to work follows. Putting these things together, here are: the means of economic production within the created order; the command to work; and the provision of water, wood, precious stones, metals and resins. All are to be used in the production of goods and indeed in the development of entrepreneurship and commerce seen in Genesis 4, and the development of skills set out in Exodus 35.30–35. In the creation narratives, God provides the command and the materials. Hence the creation of wealth is a spiritual imperative.

In the New Testament the same emphasis is set out in the Parable of the Talents (Matt. 25.14–30). Each person was equipped with an amount of money related to his abilities and invested the capital and obtained a return – well, two of them did. Their diligence was rewarded with more. The unfaithful servant was berated for failing even to put the money on deposit. In essence this parable is about spiritual responsibility to use gifts and abilities to obtain economic returns through effective stewardship and investment, and also warns against viewing equality as a goal in itself.

There is one further important building block, namely the creation mandate of the dignity of the human person. This derives directly from God's own creative activity in making us in the divine image (Gen. 1.27). The dignity of the creative process and the dignity of the worker both derive from God's own creative actions. This has implications for work itself, for the worker, for welfare and for the wider organisation of the divine economy.

Genesis does not say whether, or to what extent, government should borrow, and at what rate of interest, for either consumption or investment. However, the idea of the creation mandates furnishes

'The dignity of the human person is not restricted either to one generation or simply to living generations'

some important principles, namely dignity, wealth creation and divine provision.

The key point from Christian theology is that the *dignity* of the human person is not restricted either to one generation or simply to living generations – the principle extends to all, across time, geography, wealth and any social status or standing. *Wealth creation* and *divine provision* are linked. If the idea of creativity is a divine characteristic, then so too is that of innovation – new ideas that reflect God's character. God has provided the necessary raw materials – the classic factors of production – to provide for humanity, but that provision is neither fixed nor static and, reflecting God's bountiful nature, there can also be *growth* in the divine economy. This would seem to suggest some place for capital investment to achieve that growth, hence an argument that responsible borrowing for investment would have a place in the divine economy. The extent to which that borrowing should be indebtedness acquired by government will depend, to some degree, on the proper role of government.

None of these elements are, in themselves, determinative in establishing a precise Christian view on sovereign debt. The key point of the creation mandates or principles is that economic provision under God reflects both the order of creation initiated by God and the character of God. Hence in deriving principles for government indebtedness, it should be borne in mind that its nature, form or extent could be seen as denying divine purpose and character. The Lord has made provision in the creation for economic activity, including concepts of capital accumulation and growth. Since all are created in the image of God, there is also an element of personal responsibility, as well as responsibility across generations.

2.2 Intergenerational justice and government debt

Government indebtedness involves decisions being taken for taxpayers in one generation to consume today at the expense of future taxpayers.[7] The question is whether this is compatible with reasonable principles of distributive justice. In these matters, the exercise of prudence is important, so the answer will not be straightforward – reasonable people will disagree. In principle however, future generations cannot be ignored when it comes to distributive justice. Pope Paul VI wrote:

> We are the heirs of earlier generations, and we reap benefits from the efforts of our contemporaries; we are under obligation to all men. Therefore we cannot disregard the welfare of those who will come after us to increase the human family. The reality of human solidarity brings us not only benefits but also obligations.[8]

In addition, Pope Benedict XVI, answering a question about government debt, warned that we are 'living in untruth' when we live at the expense of future generations.[9] In Catholic social teaching, responsibility for the future has been recognised in terms of environmental obligations. We are compelled to 'recognize our grave duty to hand the earth on to future generations in such a condition that they too can worthily inhabit it and continue to cultivate it'.[10] Yet little has been said about government debt.

Perhaps the first time intergenerational justice was considered systematically in Catholic social teaching was in *Laudato si'*, Pope Francis's 2015 encyclical on the environment. A section titled 'Justice between the generations' called for intergenerational solidarity, and solidarity can be defined as the 'firm and persevering determination to commit oneself to the common good'.[11] Francis wrote: 'What kind of world do we want to leave to those who come after us, to children who are now growing up? This question not only concerns the environment in isolation; the issue cannot be approached piecemeal.'[12] He went on to warn against a culture of instant gratification and in which parents consumed too much, making it more difficult for their children to acquire a home or build the resources for starting a family.

The same principles apply to government debt. A society comfortable with accumulating more government debt – through either profligate spending or unwillingness to tax the current generation to fund such debt – is imposing an unjust burden on future generations of taxpayers as well as living inappropriately. If debt becomes too onerous, governments might renege on repaying. This too would be an injustice to those who, in good faith, have lent them money. Though there might be little sympathy for creditors in such a situation, generalised assumptions can be dangerous: creditors may include beneficiaries of pension funds who rely on them for their income in retirement, or other groups not necessarily well off, at home and overseas.[13]

If the government tries to reduce its debt burden through inflation, this will create other problems but also lead to an arbitrary redistribution of wealth from people with certain types of property – those on fixed incomes, often pensioners, as well as holders of government debt – to the wider body of taxpayers in the economy, both individual and corporate. This is problematic from the perspective of distributive justice.

The principles of distributive justice normally employed in Catholic social thought should raise concern about one generation consuming, systematically, at the expense of future ones, except in specific circumstances. This conclusion should also apply to obligations in respect of future pensions and health-care costs. A generation should not vote itself entitlements without putting aside the necessary resources to provide for the future costs of them, as would happen in private-sector or mutual social-insurance arrangements. To do so puts society at great risk that future economic and demographic changes might mean that resources do not exist to fund the obligations. This in turn has the potential to create conflict between the generations, whereas proper principles of justice should remove it. Such conflict also undermines the common good, so that the principles of social justice and of distributive justice are both compromised.[14]

This does not mean, of course, that there should not be systems of health care and pension provision in old age – but these should largely be funded at the time the promises are made. This can happen in the context of mutual arrangements for workers organised by trades unions, commercial private or government arrangements[15] – or hybrids of these.

However, there might be situations in which it is prudent as well as just for a state to take on debt. First, a society that incurs debt to create conditions that lead to economic prosperity for both the current and future generations can rightly expect the latter to contribute to the cost. This might be the case, for example, when governments fund infrastructure investment, though prudence is required to ensure it will have the expected benefits and not simply promote the interests of specific groups – there is danger in both vanity and 'white elephant' infrastructure spending. Second, when a catastrophe hits, such as the current pandemic, and it is prudent for government to bear the economic costs of both treatment and actions to prohibit economic activity temporarily, it is just for the costs to be spread over future generations. However, it could also be argued that governments should accumulate resources – over time, from surpluses – to deal with such events rather than borrow when they happen. Also, should the common good of the whole community come under threat through war, it would be justified to borrow to defend. First, future generations will benefit from the action, if it is a just war. Second, when it is necessary for the survival of society, in the same way that normal principles of property rights can be overridden for the

'There should certainly be some form of working assumption against the excessive accumulation of debt by government'

benefit of a destitute person,[16] Catholic social teaching would surely accept that all should do what they can to protect the common good in war, even if future generations bear part of the cost.

This discussion of government debt within the context of Catholic social teaching also reflects the wider Christian tradition. Section 2.1 noted the central importance of intergenerational responsibility, since all of humanity is created in the divine image. There are three important considerations.

First: the principle of dignity across the generations. Human dignity derives from the fact that humanity is created in the image of God (Gen. 1.27), and is an intrinsic part of what it means to be human. Consequently, it is not restricted only to certain generations but applies to all humanity across time. Any actions denying it to one generation to the benefit of another can be seen as denying the character of God, who creates *all* humanity in his image. So to find a reasonable balance between the generations, government debt requires careful assessment in relation to: the tax burden (revenue may need to be raised to service debt); interest rates and future expectations of them; and the prospects for inflation (which can lead to unjust gains for one generation at the expense of another). There should certainly be some form of working assumption against the excessive accumulation of debt by government.

Second: the principle of individual responsibility. One of the consequences of the creation order – as of the wider teaching of Scripture – is individual responsibility for actions and consequences. The command to work – with all the consequent implications for economic activity – has been understood throughout Christian history as suggesting a degree of personal responsibility to work, and hence for all that flows from it. From the perspective of government debt there remains a proper Christian responsibility for the current generation to: fund the current life and needs of the nation; set aside where necessary for the future; and ensure government spending and associated tax burdens are not excessive. This is, in essence, a responsibility about current consumption that recognises the abundance of God's provision, alongside the scriptural warnings against debt and excess. It is wrong to borrow and not repay debt (Ps. 37.21: 'The wicked borrow and do not repay, but the righteous give generously'), because this denies God's character and implies he is insufficient for our needs – there is a moral responsibility to honour God. And debt consumes and enslaves (Prov. 22.7: 'The rich rule over the poor, and the borrower is slave to the lender'). Almost everything about debt – worry, deferment of responsibility to others, a sort of bondage to the interest repayments – represents a distortion of responsibilities set out in creation and elsewhere. All these aspects apply as much to government debt as to personal liabilities. Romans 13.8–10, which is a discussion of the responsibilities of citizens towards the state, explicitly states 'Let no debt remain outstanding, except the continuing debt to love one another', and grounds this command in the law of the commandments, which are themselves a reflection of the natural law of the creation order.

Third, the principles of the divine economy. The idea that God provides the means of production, the economic capital and the skills or human capital to ensure a functioning market economy has been set out. Due to the fall, there is imperfection in the economy, but the principles from creation still apply: the ability to achieve economic growth (for the benefit of all, both now and in the future); the common good; the responsibility for stewardship of the earth. Within all of that there is concern for ensuring justice and a role for government in the 'common kingdom'. Excessive borrowing and debt, as a minimum, challenge these principles because they challenge the character of God, the image of God in humanity, and our responsibilities to both this and future generations.

These principles do not mean that governments should never issue bonds in order to borrow. They are, rather, a warning about purpose, balance and intent. It is only possible here to scratch the surface of the subject and perhaps lay some groundwork for further discussion. However, applying the principles of the creation order, Scripture and distributive justice, there is a strong case for governments not to accumulate debt systematically unless the circumstances are exceptional or future generations clearly benefit. As well as being an injustice, such indebtedness might prevent governments undertaking the functions that Catholic social teaching and indeed the wider Christian tradition demand of them. It is to this that the final chapter now turns.

Notes to Chapter 2

1 John Paul II (1981), *Laborem exercens*; https://www.vatican.va/content/john-paul-ii/en/encyclicals/documents/hf_jp-ii_enc_14091981_laborem-exercens.html, para. 4.

2 Dorothy Sayers, *Why Work? An Address Delivered at Eastbourne, April 23rd, 1942* (London: Methuen, 1942), p. 18.

3 Josemaría Escrivá, *Friends of God*, first published in Spanish in 1977 (first British edition London: Scepter, 1981); https://www.escrivaworks.org/book/friends_of_god.htm, ch. 4, no. 61.

4 John Calvin, *Commentary on Genesis* 2.15, quoted in Ian Hart, 'The Teaching of Luther and Calvin about Ordinary Work: 2. John Calvin (1509–64)', *Evangelical Quarterly* 67:2 (1995), pp. 121–35, at pp. 121–2.

5 Abraham Kuyper, *On Business and Economics*, ed. Peter S. Heslam, Abraham Kuyper Collected Works in Public Theology (Bellingham, WA: Lexham Press and Acton Institute for the Study of Religion and Liberty), p. xlix.

6 Pope Paul VI (1967), *Populorum progressio*; https://www.vatican.va/content/paul-vi/en/encyclicals/documents/hf_p-vi_enc_26031967_populorum.html, para. 25.

7 It is the holders of government bonds who will reap the corresponding benefit, while they sacrifice current consumption in order to lend to the government.
8 *Populorum progressio*, para. 17.
9 Peter Seewald, *Light of the World: The Pope, the Church and the Signs of the Times* (San Francisco, CA: Ignatius Press, 2010), pp. 47–8.
10 Pope Benedict XVI (2009), *Caritas in veritate*; https://www.vatican.va/content/benedict-xvi/en/encyclicals/documents/hf_ben-xvi_enc_20090629_caritas-in-veritate.html, para. 50.
11 Pope John Paul II (1987), *Sollicitudo rei socialis*; https://www.vatican.va/content/john-paul-ii/en/encyclicals/documents/hf_jp-ii_enc_30121987_sollicitudo-rei-socialis.html, para. 38.
12 Pope Francis (2015), *Laudato si'*; https://www.vatican.va/content/francesco/en/encyclicals/documents/papa-francesco_20150524_enciclica-laudato-si.html, para. 160.
13 In the UK, about 40 per cent of all government debt is held by UK insurance companies and pension funds – see https://dmo.gov.uk/media/17379/oct-dec.pdf.
14 For a discussion of the distinction between these two types of justice, see Philip Booth and Matias Petersen, 'Catholic Social Teaching and Hayek's Critique of Social Justice', *Logos: A Journal of Catholic Thought and Culture* 23:1 (2020), pp. 36–64.
15 In the UK, for example, local government pensions are funded and the funds invested, but national government civil-service pensions and general old-age pensions are not. Both are provided by the state.
16 See Pope Leo XIII (1891), *Rerum novarum*; https://www.vatican.va/content/leo-xiii/en/encyclicals/documents/hf_l-xiii_enc_15051891_rerum-novarum.html, para. 14. This situation was also discussed by St Thomas Aquinas.

Chapter 3

The proper role of government

Sovereign debt is government indebtedness that might be accumulated for a number of reasons. Assessment of the rationale for it, its deployment and servicing partly depends on a proper appreciation of the role of government. This is a theme in Catholic social teaching, biblical studies and the wider Christian tradition.

3.1 The role of government in Catholic social teaching

The *Catechism of the Catholic Church* states that 'Every human community needs an authority to govern it' and that the authority's role is 'to ensure as far a possible the common good of society'.[1] The common good is defined in *Gaudium et spes*, a document of the Second Vatican Council, as: 'the sum of those conditions of the social life whereby men, families and associations more adequately and readily may attain their own perfection'.[2]

All organisations in society have their own responsibility in promoting the common good. It is not directly the role of the state to require people to live a life of fulfilment and perfection, rather it should create the conditions whereby it is possible for all to play their part in bringing this about. It is in this context that Catholic social teaching has outlined specific functions of the state, including promoting justice, ensuring internal and external peace, protecting property rights, ensuring stable money and appropriately regulating economic life. The state should also act in accordance with what has become known as the preferential option for the poor, paying particular attention to the well-being of the least well off because those who are richer have the means to look after their own interests.[3] Government, in the thought of St Thomas Aquinas, should promote the cultivation of virtue – certainly it should not impede it.[4]

The Catholic Church has supported democracy as the means of choosing governments,[5] which ensures they are accountable to the people and can be replaced peacefully. Democracy should also be a means of ensuring that society is not run by narrow interest groups.

The question arises, therefore, whether accumulation of sovereign debt impairs the crucial functioning of government or democracy. In response it can be said that there are many historical examples where it has led to problems serious enough to do just that, and the examples given below will suffice to make the point. Not every case of excessive debt leads to a catastrophic outcome, but that does not mean the problem should be dismissed.

3.2 Debt and the impairment of governance for the common good

The accumulation of too much debt and the subsequent need to pay interest and principal on it has seen governments constrained in the performance of their necessary functions. In several cases accumulation has led to or exacerbated breakdown in the functioning of government and society, even resulting in the sovereign ceasing to exist. For some nations it has led to a loss of control over domestic commodities and assets.

During the nineteenth century, as trade began to spread and the newly independent nations of the world in places such as South America and Africa sought to borrow for internal development, a wave of debt crises and defaults hit the globe. In the 1860s, Egypt borrowed extensively to build roads and factories, as well as public and private buildings in Cairo in imitation of Western capitals. It was forced to default in 1876, with the result that its public finances were put under the control of a Franco–British debt-administration council. Britain then invaded Egypt in 1887, ostensibly to force repayment though possibly also motivated by concern over control of the Suez Canal, the debt issue serving as *casus belli*.

During the same period, many nations, including Tunisia, Serbia and Greece, were forced to accept foreign debt-administration councils taking control of government revenue streams to ensure their obligations were paid. Haiti, Nicaragua and the Dominican Republic had to accept US troops on their soil in the early years of the twentieth century, and permitted US officials to take control of customs houses so that revenue could be directed to repayment of foreign debt.

Much earlier, the fall of the Bourbon dynasty in France had been accelerated by that regime's financial woes. During the final days of his reign, Louis XVI was forced to call a meeting of the Estates General in an effort to convince lawmakers to raise taxes. Once assembled – for the first time in 150 years – it sought to wrest more power from the king, leading to the start of the French Revolution.

Debt has also been used by nations as a means to pressure a borrower to either pursue or cease national policies of which the lender approves or disapproves. The Suez Crisis of 1956 provides one such example. When General Gamal Abdel Nasser announced that Egypt would nationalise the Suez Canal, the UK and France, following Israel's invasion of Egypt, sent troops to occupy the Canal Zone. The USA, fearful this display of military force could push Egypt into closer relationship with the Soviet Union, used political and economic pressure to persuade the invading nations to withdraw. It was in a position to make such demands due to the large amounts of UK and French debt it held, issued to pay for wartime expenditure and subsequent rebuilding.

In the most extreme cases, a nation dealing with the problem of too much debt can find itself in such dire straits that it will lose its independence and be subsumed. Here Scotland at the end of the seventeenth century serves as an example. A scheme to colonise the Isthmus of Panama, under the auspices of the Darien Company, ended in complete failure. The plan essentially bankrupted Scotland which, shortly after, entered into political union with England under the Treaty of Union of 1707. While the financial fallout from the Darien scheme was not the only cause of union (Scotland was also suffering from famine following a series of poor harvests), the subsequent collapse of the country's ability to pay its debts or finance necessary functions resulted in loss of independence.

Similarly, in the 1930s the financial situation in Newfoundland, at the time an independent country, resulted in its ultimately becoming part of Canada. In the 1920s, Newfoundland had engaged in deficit spending and borrowing from abroad. When the world economy contracted after the stock-market collapse of 1929, its financial situation became perilous. In 1932 it was forced to seek a loan from the UK and Canada to service its debt, and it gutted its civil service, closed post offices and eliminated many social-assistance programmes. Collapse of the economy led to collapse of the political system, and Newfoundland eventually gave up its popular sovereignty, passing control of government to a commission appointed by and responsible to Westminster. After the end of the Second World War, still faced with a large debt burden, the people of Newfoundland voted to accept confederation with Canada.

The more recent history of Argentina is especially interesting because it illustrates many of the points made in this publication. As a country, it has defaulted on its debt on nine occasions. At the beginning of the 1930s, Argentina was one of the richest countries in the world. During the Peronist period of the 1950s, although state spending increased dramatically, this did not lead to the build-up of government debt, due partly to the exceptionally good fiscal position following the Second World War but also the printing of money to finance spending. However, government spending in excess of revenues eventually lifted inflation to over 1,000 per cent in 1976. After that, a huge excess of government spending over tax revenues began to be financed by external debt, which rose from 13.8 per cent of GDP in 1976 to 55.8

per cent in 1986.[6] This compounded, and was compounded by, other macroeconomic difficulties, and inflation rose again to around 1,500 per cent in the mid-1980s. Inflation at these levels is deeply damaging to the social and economic fabric, leads to arbitrary redistribution of income and wealth, and encourages financial speculation. During this period, private investment and real incomes slumped.

The following 20 years saw a series of events that can be linked to economic and social dislocation. There were debt defaults, high levels of inflation, reductions in government spending on social programmes, a near tripling of extreme poverty in 18 months from May 2001, riots and a general election in which 20 per cent of the population spoilt their ballot papers. In addition, policy autonomy – and thus the accountability of the government to the people – was lost as the IMF and creditors took a much greater say in political and economic decisions. Almost every legitimate function of government was seriously impaired.

The euro crisis of 2009 saw similar problems in many southern European countries. This crisis came, to some extent, out of the blue. However, the already high levels of government debt in countries such as Italy and Greece meant they were unable to deal with the consequences of a shock that, had earlier policy been more prudent, would have caused much less harm. Both countries went into the euro crisis with government debt in excess of 100 per cent of national income. In Italy a government entirely composed of non-elected professionals was appointed, while Greece's response involved a range of debt-support packages from other countries and institutions. These packages have a real cost to creditors, and so conditions are imposed and democratic accountability is effectively replaced by accountability to institutions representing creditors such as the EU and the IMF. In the five years following the crisis, extreme poverty in Greece doubled to some of the highest levels in the Union.

'Excessive government indebtedness distorts political, economic and social relationships'

An extreme case of social dislocation caused by government debt arose in the case of interwar Germany. It is important to note that this debt did not arise as a result of German taxpayers being unwilling to fund government spending through taxes, rather it was imposed by the allies following the First World War. Nevertheless, it is the effects of indebtedness that are of interest, not the cause, and the immediate effect of the high levels of debt was default, followed by French and Belgian occupation of the Ruhr valley. The subsequent printing of money to pay debts and finance transfers to those affected by the occupation then led to hyperinflation, immense poverty and economic and social damage.

The overall picture is that excessive government indebtedness distorts political, economic and social relationships and is very often to the detriment of the indebted nation.

In the above cases a number of factors were at work, and there is disagreement about the ultimate causes of the various crises. However, there is no doubt that the growth of government debt has been an important factor in undermining the key functions of government outlined in Catholic social teaching. The accountability of government to the people through democracy has been weakened. In addition, the various examples have shown hyperinflation, a huge growth in poverty, an increase in social tensions, military takeovers and riots. The basic functions of government in promoting the common good are seriously impaired. There are also important concerns related to government's role in promoting distributive justice. Each case of default, inflation and extreme austerity led to arbitrary redistribution of wealth and incomes between different groups in society. Some might be able to manage loss; others on fixed incomes or receiving pensions invested in government bonds might lose everything they own or much of their income. The same may happen to the very poorest, who rely on state assistance. All citizens may face significant increases in taxes and therefore a reduced ability to play their part in promoting the common good through thriving business or family life.

3.3 Perspectives from the wider Christian tradition

The classic view within the Protestant tradition for the existence of government is essentially negative: government is instituted by God to prevent sin and evil through the maintenance of defence and good order. The state wields the power of the sword to contain and constrain the exercise of evil. This perception of the limited role of the state is drawn from the Scriptures, primarily Romans 13, which calls on Christians to submit themselves to the governing authorities, described as 'agents of wrath to bring punishment on the wrongdoer' (Rom. 13.4). But although holding to the classic formulation, Christian writers such as John Calvin and Abraham Kuyper have recognised more positive elements of the state – while Scripture itself notes that 'the one in authority is God's servant for your good' (Rom. 13.4).

The role of the state can certainly extend to the regulation of corrupt or fraudulent practices. This is simply a reflection of the explicit teaching of the Bible. For example, Deuteronomy 24.14–15 deals with timely and unjust wages, and 25.13–16 with honest weights and measures, an injunction returned to in Amos 8.5–6. In his 1891 speech 'The Social Question and the Christian Religion', Kuyper set out the challenge of the biblical texts on wages and oppression, adding that the 'worker, too, must be able to live as a person created in the image of God', and that to 'treat the workingman simply as a "factor of production" is to violate his human dignity'.[7]

Calvin recognised that we are not simply individuals but part of a wider society, and that society needs social rules or laws:

> Since man is by nature a social animal, he is disposed, from natural instinct, to cherish and preserve society; and accordingly we see that the minds of all men have impressions of civil order and honesty. Hence it is that every individual understands how human societies must be regulated by laws, and also is able to comprehend the principles of those laws.[8]

Calvin understands our essential social nature, that society is not just to be preserved (a negative reason for civil government) but also to be cherished (a positive reason). This same double purpose is seen in his commentary on Romans, where the role of civil government is 'to provide for tranquillity of the good, and to restrain the waywardness of the wicked',[9] and in his *Institutes of the Christian Religion*, where it is 'to adapt our conduct to human society, to form our manners to civil justice, to conciliate us to each other, to cherish common peace and tranquillity'.[10]

In listing the roles and responsibilities of government, Calvin includes the maintenance of civil defence, military action and capital punishment, but adds the protection of private property, the encouragement of commerce as well as honesty and modesty. However, government remains an aid or help – it cannot produce utopia or even effectively reshape or remould the world. Its role is limited.

He writes in his commentary on Romans 12.8 that the role of those in government is to 'provide for the safety of all' and to 'watch day and night for the well-being of the whole community'.[11] Indeed, in his Old Testament commentaries Calvin notes the link of 'right government' with 'strangers, orphans and widows' – a reminder of the responsibility of civil government to care for the most vulnerable.[12] The role of government was to 'give aid and protection to the oppressed' as well as to protect the good against evil and curb the criminal.[13]

The levying of tax was a legitimate duty of government, and although it was permissible for revenue to be used to maintain their dignity of office, those in authority 'must remember, in their turn, that their revenues are not so much private chests as treasuries of the whole people'.[14] Taxes are 'subsidies of the public necessity' and should not be a burden to the poor.[15] Calvin also argued that money should be lent at interest, as this was for the good of the whole community, but in particular for purposes of investment and social needs (rather than excess consumption). The city council in Geneva maintained rates from 5 to 6.67 per cent between 1541 and 1557 (though Calvin himself pressed for them to be kept low). Usury – traditionally lending at interest – was now defined as lending at exorbitant rates. So the market was also to play its role in the common good, even if there were pressures and tensions. Alongside the government with its real but limited role, Calvin also adopted the voluntary principle, the idea of the Church overseeing the provision of social welfare.

The introduction of interest in Calvin's Geneva, and its regulation, together with the positive and negative reasons for civil government but its limited nature, all imply the importance in the Christian tradition of a careful management of budgets, spending and debt. Simply to borrow to fund current consumption sat ill with Calvin, be the borrower the individual or the state.

Kuyper is similar to Calvin in his formulation. He regards the state as a consequence of the fall and hence its prime reason for existence is the negative one given by Calvin – the restraint of sin. So, Kuyper argues, 'God has instituted the magistrates, by reason of sin.'[16] He understands society as composed of many different elements, from the arts to business to the family. Each of these has '*sovereignty in the individual social spheres*' and 'these different developments of social life have *nothing above themselves but God*, and ... the state cannot intrude here'.[17] Essentially, Kuyper sees the state as one of the spheres existing under the sovereignty of God, with its own rights, prerogatives and responsibilities – and it should not intrude on those of the other spheres. The danger is that the state grows and crowds the latter out. According to Kuyper, society is organic, government is mechanistic.

The state's role is to avoid social conflict (by each sphere maintaining its own sovereignty), to defend the weak and maintain the overall unity of society.

The consequence of this is the priority given within the Protestant and Catholic traditions to the voluntary principle. To be precise, it is recognising the proper though limited role of the state, but also seeing the vitality and centrality of family, voluntary associations and societies in the achievement of social good.

Thomas Chalmers (1780–1847) is the evangelical through whom the economics of Adam Smith most obviously travelled. The paradox in the classical model between the pursuit of self-interest on the part of individuals and the overall achievement of the public good could only be explained by the providential design of the laws of economics. Chalmers, too, viewed the role of the state as limited.

In the second volume of his *Natural Theology*, Chalmers considered how the natural order affected both the economic and the political well-being of society. There was, he asserted, a natural law of property. In addition he appealed to the law of self-preservation (that is, individuals acting in their own interests), which led to both industry and what he termed the 'law of relative affection'. This comes back to the paradox of self-interest leading to the common good. The law of relative affection followed Smith's theory of moral sentiments in maintaining that a natural seed was implanted in humanity that gave the individual compassion for the distress and destitution of others. Chalmers argued that 'The philosophy of free trade is grounded on the principle, that society is most enriched or best served, when commerce is left to its own spontaneous evolutions', and that:

'The intervention of the state had led to duties being replaced by rights, to dependency rather than freedom'

> The greatest economic good is rendered to the community, by each man being left to consult and to labour for his own particular good – or, in other words, a more prosperous result is obtained by the spontaneous play and busy competition of a thousand wills, each bent on the prosecution of its own selfishness.

'It is', he said, 'when each man is left to seek, with concentrated and exclusive aim, his own individual benefit – it is then, that markets are best supplied.'[18] So the 'invisible hand', in his view, was clearly that of the Almighty himself. As Chalmers said, this 'strongly bespeaks a higher agent, by whose transcendental wisdom it is, that all is made to conspire so harmoniously and to terminate so beneficially'.[19] He invests Smith's model with divinity.

Chalmers argued that 'We cannot translate beneficence into the statute-book of law, without expunging it from the statute-book of the heart.'[20] He was relatively negative towards the role of the state and saw the central importance of locality and personal relationships, which are characteristics of the voluntary principle. Lord Shaftesbury is, of course, an example par excellence of a public leader who sought a balanced path between the state as a restrainer of evil (legislation against child labour, for example) and the voluntary principle (in education, welfare, training and employment).[21]

Chalmers' appeal to property, industry and compassion represents a common historical framework for economics within the Christian tradition. The intervention of the state had led to duties being replaced by rights, to dependency rather than freedom. Consequently, the impact either of high levels of sovereign debt or of taxation necessary to service it would be seen in this wider tradition as inimical to basic principles of the dignity of the individual created in the divine image, to responsibilities to the poor and needy, and to the proper yet limited role of government. The argument in the present context is not that either Scripture or the Christian tradition sets out explicit principles for the management of government debt in contemporary society. Nonetheless, those central sources of Christian belief and practice do give grounds for significant scepticism concerning the efficacy and impact of such debt.

3.4 Virtue and prudence in government

Following the financial crash there has been much discussion of the importance of business ethics. The application of the virtues in government is also essential if government is to promote the common good and distributive justice. In concluding this chapter, it is helpful to relate the problem of debt to the practice of the virtues in government. The Pontifical Council for Justice and Peace explains the moral challenges facing governments and their electorates,[22] and these questions have been raised in a number of papal encyclicals, including, most recently, *Fratelli tutti*.

The practice of the virtue of *justice* can become difficult in situations where there is significant government debt, the accumulation of which could be regarded as an injustice in itself. Decisions might have to be taken to increase the tax burden beyond reasonable levels, inflate away debt or impose arbitrary costs on vulnerable groups. Alternatively, governments might choose to default on debt or reduce vital social support programmes. All of these could undermine principles of distributive justice, but governments might find themselves in positions where some or all of these actions become necessary.

Prudent judgement, whereby those who are governing soberly make difficult decisions using the information available, trying to avoid the costs of government debt, also become harder when there are competing demands and interests regarding expenditure.

A lack of the virtue of *temperance* may well have been responsible for the building up of debt in the first place. Once the debt reaches high levels, temperance becomes more difficult to exercise, by government and electorate alike. There will be a temptation to pursue strategies that may be attractive in the short term but ultimately destructive, such as the creation of inflation, or support for authoritarian or nationalistic political parties that try to lay blame at the door of foreign creditors.

Finally, it should be noted that the virtue of *courage* becomes more necessary in highly indebted countries. Courage is needed to deal with the difficult situations that arise when a country has to move from spending more than it is willing to pay in taxes, to having taxation higher than government spending. This is true on the part of both the electorate, who might choose to postpone solving the problem, and politicians, who might be similarly tempted, not least in light of the electoral cycle.

Ultimately it could be said that government debt creates an occasion of sin in which virtuous behaviour becomes difficult. Indeed, it could be regarded as part of a structure of sin. As discussed by John Breen, it is the teaching of the Catholic Church, through John Paul II, that structures of sin are the result of personal choice.[23] Such structures of sin can then create conditions in political and economic life that cloud moral judgement and hinder virtuous behaviour. This is certainly the experience of highly indebted countries, even if many have come through without the breakdown of civil society or democratic politics. The current position of many such countries suggests they will face considerable challenges, requiring exercise of the virtues by both governments and electorates if there are not to be serious social dislocation and threats to the common good in future decades. In many cases, accumulation of debt and future social-insurance liabilities can be regarded as having undermined distributive justice, especially across the generations, and may render governments unable to fulfil their essential functions as demanded by Catholic social teaching.

Notes to Chapter 3

1 Catholic Church, *Catechism of the Catholic Church* (London: Geoffrey Chapman, 1994), 2nd edn, para. 1898.
2 Vatican II (1965), *Gaudium et spes*; https://www.vatican.va/archive/hist_councils/ii_vatican_council/documents/vat-ii_const_19651207_gaudium-et-spes_en.html, para. 74.
3 See e.g. Pope Leo XIII (1891), *Rerum novarum*; https://www.vatican.va/content/leo-xiii/en/encyclicals/documents/hf_l-xiii_enc_15051891_rerum-novarum.html, para. 37.
4 Mary L. Hirschfeld, *Aquinas and the Market: Toward a Humane Economy* (Cambridge, MA: Harvard University Press, 2018), p. 27.
5 Pope John Paul II (1991), *Centesimus annus*; https://www.vatican.va/content/john-paul-ii/en/encyclicals/documents/hf_jp-ii_enc_01051991_centesimus-annus.html, para. 46.
6 IMF, Global Debt Database, General Government Debt as percentage of GDP https://www.imf.org/external/datamapper/DEBT1@DEBT/USA/FRA/JPN/GBR/SWE/ESP/ITA/ZAF/IND/ARG.
7 Abraham Kuyper, *On Business and Economics*, ed. Peter S. Heslam, Abraham Kuyper Collected Works in Public Theology (Bellingham, WA: Lexham Press and Acton Institute for the Study of Religion and Liberty), p. 222, quoting Kuyper, 'The Social Question and the Christian Religion'.
8 John Calvin, *Institutes*, II.12.13, Library of Christian Classics, ed. John T. McNeill, trans. Ford Lewis Battles (Louisville, KY: Westminster/John Knox Press, 1960).
9 John Calvin, *Commentary on Romans* 13.3, quoted in William R. Stevenson, 'Calvin and Political Issues', in *The Cambridge Companion to John Calvin*, ed. Donald K. McKim (Cambridge: Cambridge University Press, 2004), p. 174.
10 Calvin, *Institutes*, IV.20.2.
11 Calvin, *Commentary on Romans* 12.8.
12 Stevenson, 'Calvin and Political Issues', p. 176.
13 Calvin, *Institutes*, IV.20.9.
14 Calvin, *Institutes*, IV.20.13.
15 Ibid.
16 Abraham Kuyper, *Calvinism: Six Stone-Lectures*, Lecture 3 (Amsterdam: Höveker & Wormser, 1899), p. 81.
17 Ibid., p. 91; emphasis original.
18 Chalmers, *Natural Theology*, vol. 2.4.4.6, in *The Works of Thomas Chalmers*, *Volume 2* (Glasgow: William Collins, 1836), pp. 136–7.

19 Ibid., p. 137.
20 Ibid., p. 128.
21 Richard Turnbull, *Shaftesbury: The Great Reformer* (Oxford: Lion Hudson, 2010).
22 Pontifical Council for Justice and Peace, *Compendium of the Social Doctrine of the Church* (London: Burns & Oates, 2005); https://www.vatican.va/roman_curia/pontifical_councils/justpeace/documents/rc_pc_justpeace_doc_20060526_compendio-dott-soc_en.html, paras 565–74.
23 John M. Breen, 'John Paul II, the Structures of Sin and the Limits of Law', *St. Louis University Law Review* 52 (2008), pp. 333–5.

Conclusions

Catholic social teaching has a long history of informed reflection on society's socio-economic needs and challenges. However, perhaps because of the more technical macroeconomic aspects of bonds, debt and interest rates, rather than policy issues such as the fiscal elements of taxation and spending, government debt is rarely discussed. Yet as shown, debt itself, as well as the cost of interest, taxation and spending, raises considerable moral questions. Catholic social teaching and the wider Christian tradition offer considerable resources for proper reflection on these issues.

However, neither Scripture nor church teaching provides precise, detailed formulations for the acquisition, use and management of debt by government. In contemporary societies, such debt can sometimes be a useful and necessary economic tool – but it is a limited one, not least on account of the moral questions raised.

The intergenerational implications examined here are fundamental characteristics of government debt, given that all humanity, across the generations, is created in the divine image. This means that the current generation has a clear moral obligation not to burden future ones with excessive debt – an extension of Catholic principles of distributive justice. These same principles are also involved in the debates around the current balance of tax and spending, the role of inflation, systems of pensions and health care that do not involve pre-funding and indeed the proper role of government. Default on debt, whether explicit or by the creation of inflation, leads to serious moral issues related to principles of distributive justice.

The squeezing of the voluntary sector, as government has taken over functions it traditionally provided, has resulted in increased government spending – and debt – as well as obligations that are 'off-balance-sheet' and opaque. The outcome in terms of poverty relief has not necessarily been improved.

Both Catholic social teaching and the wider Christian tradition recognise a proper place for government, for care and provision for those in need, and the propriety of investing for the future. The latter might well suggest an appropriate use of government borrowing, to deal with emergencies and protect society from destruction by an aggressor. However, that same tradition teaches a central role for the voluntary principle, a real but limited role for government, personal responsibility for work and enterprise, and responsibility not to impoverish future generations. Furthermore, accumulation of debt can render governments *unable* to care appropriately for those in need or make provision for the future. *In extremi*s it could lead to severe poverty and the breakdown of order and perhaps even of democratic government, as seen to some extent in heavily indebted eurozone countries.

These ideas and principles point to the conclusion that excessive levels of government debt sit ill with Christian teaching. It is a matter that should be more widely debated.

Select bibliography

Booth, Philip and Matias Peterson, 'Catholic Social Teaching and Hayek's Critique of Social Justice', *Logos: A Journal of Catholic Thought and Culture* 23:1 (2020), pp. 36–64.

Breen, John M., 'John Paul II, the Structures of Sin and the Limits of Law', *St. Louis University Law Review* 52 (2008), pp. 333–5.

Catholic Church, *Catechism of the Catholic Church* (London: Geoffrey Chapman, 1994).

Gokhale, Jagadeesh, *The Government Debt Iceberg*, Research Monograph 68 (London: Institute of Economic Affairs, 2014).

Gruber, Jonathan, *Public Finance and Public Policy*, 6th edn (New York: Worth, 2019).

Hirschfeld, Mary L., *Aquinas and the Market: Toward a Humane Economy* (Cambridge, MA: Harvard University Press, 2018).

OBR, *Fiscal Sustainability Report – July 2018* (London: Office for Budget Responsibility, 2018).

OBR, *Fiscal Sustainability Report – July 2020* (London: Office for Budget Responsibility, 2020).

Pontifical Council for Justice and Peace, *Compendium of the Social Doctrine of the Church* (London: Burns & Oates, 2005).

Seewald, Peter, *Light of the World: The Pope, the Church and the Signs of the Times* (San Francisco, CA: Ignatius Press, 2010).

Tanner, Michael D., *Going for Broke: Deficits, Debt, and the Entitlement Crisis* (Washington DC: The Cato Institute, 2015).

Wagner, Richard E., *Deficits, Debt and Democracy* (Cheltenham: Edward Elgar, 2012).

Papal encyclicals and other church documents

Francis (2020), *Fratelli tutti*, encyclical letter; http://www.vatican.va/content/francesco/en/encyclicals/documents/papa-francesco_20201003_enciclica-fratelli-tutti.html.

Francis (2015), *Laudato si'*, encyclical letter; https://www.vatican.va/content/francesco/en/encyclicals/documents/papa-francesco_20150524_enciclica-laudato-si.html.

Benedict XVI (2009), *Caritas in veritate*, encyclical letter; https://www.vatican.va/content/benedict-xvi/en/encyclicals/documents/hf_ben-xvi_enc_20090629_caritas-in-veritate.html.

John Paul II (1991), *Centesimus annus*, encyclical letter; https://www.vatican.va/content/john-paul-ii/en/encyclicals/documents/hf_jp-ii_enc_01051991_centesimus-annus.html.

John Paul II (1987), *Sollicitudo rei socialis*, encyclical letter; https://www.vatican.va/content/john-paul-ii/en/encyclicals/documents/hf_jp-ii_enc_30121987_sollicitudo-rei-socialis.html.

Pontifical Council for Justice and Peace (1986), *At the Service of the Human Community: An Ethical Approach to the International Debt Question*; http://www.iustitiaetpax.va/content/giustiziaepace/en/archivio/documenti/at-the-service-of-the-human-community--an-ethical-approach-to-th.html.

Paul VI (1967), *Populorum progressio*, encyclical letter; http://www.vatican.va/content/paul-vi/en/encyclicals/documents/hf_p-vi_enc_26031967_populorum.html.

Vatican II (1965), *Gaudium et spes*, Pastoral Constitution on the Church in the World; https://www.vatican.va/archive/hist_councils/ii_vatican_council/documents/vat-ii_const_19651207_gaudium-et-spes_en.html.

Leo XIII (1891), *Rerum novarum*, encyclical letter; http://www.vatican.va/content/leo-xiii/en/encyclicals/documents/hf_l-xiii_enc_15051891_rerum-novarum.html.

List of CEME publications

Richard Turnbull, *Quaker Capitalism: Lessons for Today*, 2014.

Edward Carter, *God and Enterprise*, 2016.

Richard Turnbull (ed.), *The Challenge of Social Welfare: Seeking a New Consensus*, 2016.

Richard Turnbull, *The Moral Case for Asset Management* (jointly with New City Initiative), 2016.

Martin Schlag, *Business in Catholic Social Thought*, 2016.

Andrei Rogobete, *Ethics in Global Business*, 2016.

Ben Cooper, *The Economics of the Hebrew Scriptures*, 2017.

Lyndon Drake, *Capital Markets for the Good of Society*, 2017.

Richard Turnbull and Tim Weinhold (eds), *Making Capitalism Work for Everyone*, Vol. 1, 2017.

Richard Turnbull and Tim Weinhold (eds), *Making Capitalism Work for Everyone*, Vol. 2, 2017.

Richard Turnbull, *Understanding the Common Good*, 2017.

Andrei Rogobete, *The Challenges of Migration*, 2018.

Steven Morris, *Enterprise and Entrepreneurship: Doing Good Through the Local Church*, 2018.

Richard Turnbull, *Work as Enterprise: Recovering a Theology of Work*, 2019.

Edward Carter, *God and Competition: Towards a Positive Theology of Competitive Behaviour*, 2019.

Steven Morris, *The Business of God*, 2019.

Andrew Hartropp, *Corporate Executive Remuneration*, 2019.

Richard Turnbull (ed.), *The Economic and Social Teaching of the Hebrew Scriptures*, 2020.

Andrei Rogobete, *The UK Savings Crisis*, 2020.

Barbara Ridpath, *Ethics and Economics: Economics as Servant or Master?*, 2021.

Philip Booth, Kaetana Numa, Stephen Nakrosis, Richard Turnbull, *Government Debt: A Neglected Theme of Catholic Social Teaching*, 2021.