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Government debt, inter-generational justice and Catholic Social Teaching



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Government debt is not a new phenomenon. It has arisen and manifested itself in various ways throughout the ages. For example, in ancient monarchies, sovereigns would borrow from wealthy courtiers. The Bank of England was created in 1694 to manage government debt and it is often argued that a driving force of the union of England and Scotland in 1707 was the indebtedness of the latter as a result of the Darien scheme.

Indeed, a graph (see below) of UK government debt over the last 200 years suggests that, as a proportion of national income, UK government debt has been higher than it is as the current time.

After each of the Napoleonic Wars, the First World War and the Second World War, government debt in the UK, as a proportion of national income, was much higher than it is today.

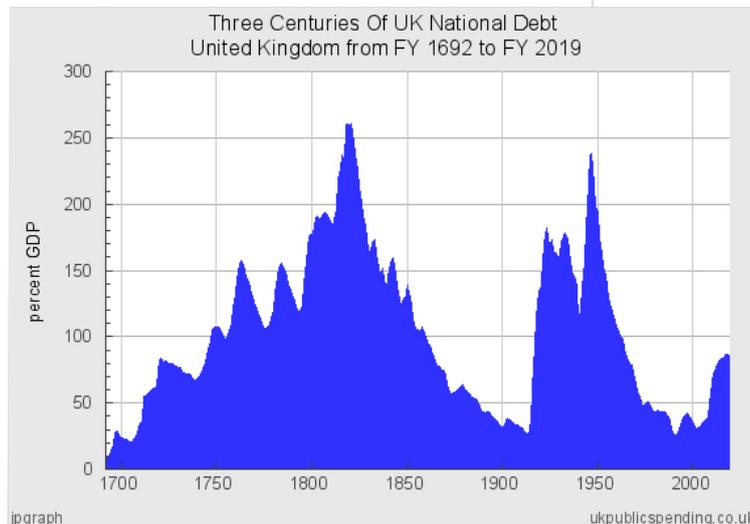
Government debt – just or unjust, virtue or vice?

Although it will be argued that in many circumstances the accumulation of government debt is ethically questionable, this may not always be the case.

The ethical status of government debt could be said to depend on why it is accrued. At one extreme, if it results from profligate sovereigns borrowing to enhance their own status or to wage an offensive war with no intention of paying the money back, it would be difficult to justify the incurring of debt in any Christian moral framework. It would, at the very least, offend the principle of distributive justice by which, according to Thomist thinking, it should be ensured that goods are

distributed proportionately and according to just criteria, such as liberty, virtue and merit. It could also be argued that the acquisition of debt with no intention, or only a passive intention, of repayment was an offence against the eighth commandment and, if the war is unjust, also the fifth.

There are purposes for which government borrowing could be justifiable. These include situations where a government is unable to perform its basic core functions, for example, as a result of a natural disaster. In



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this case, the Catholic Social Teaching principles of the common good and human dignity would suggest that the immediate and serious needs of the population are prioritised. Government borrowing to provide infrastructure from which an economic return and future tax revenues are expected could be defended on the grounds that the generations that will benefit will also service the debt. In addition, borrowing to defend the country in what might be termed a 'just war'¹ when the survival and common good of the whole community is at stake could also be justified on the ground that future generations would arguably benefit. In these situations, incurring debt would not offend distributive justice. As noted above, the three peaks in UK government debt up to 1945 all occurred in wartime. In the UK, it tended to be the case that debt was incurred in wartime and repaid in peacetime. Whether those wars were just wars is a separate matter, but the principle of borrowing to fight a just war is not intrinsically problematic.

In more recent times, government debt has often been accumulated for the purposes of financing consumption (that is government spending not financed by taxation). The US government, for example, has run deficits in 60 of the last 69 years. The Italian government has not run a surplus since the Second World War. If we assume that the accumulation of debt is intentional, in a virtue ethics framework none of the potential explanations for the accumulation of debt reflect well on those acting within the political system. More benign explanations might suggest that lack of foresight or the asymmetrical application of Keynesian principles of fiscal demand management might have led to regular deficits. However, even this might be thought of as reflecting a lack of the virtue of prudence (that is not trying to see ahead and accumulate full knowledge before acting wisely) and we should expect politicians to act prudently. Attempts, for example, to run deficits in bad economic times should, in a Keynesian framework, be offset by the accumulation of surpluses in good times. However, the apparent need to run surpluses in good times seems to get put off. The phrase of St Augustine, 'Lord make me chaste, but not yet' comes to mind.

The perpetuation of continual and chronic government borrowing can also be thought of as arising from the lack of the virtues of temperance and justice. There is a desire to benefit from the provision of goods, services and transfers while these are paid for by future generations. These goods, services and transfers could be financed by higher taxes (thus reducing other forms of consumption), but there is a desire to have more money immediately (lack of temperance) to be financed by future generations (undermining distributive justice, as noted above).

In a democracy, the process by which government spending is allowed to exceed taxation could operate in many ways. It is possible that the electorate as a whole may be comfortable with government spending that is not financed by taxation, knowing that the burden of financing the consumption of the current generation will be

the next generation should be given special consideration when people are deciding how to act as they have no direct voice

borne by future generations. Alternatively, interest groups might campaign successfully for increased spending or particular tax cuts (or politicians might anticipate the preferences of those groups and make promises to them) while the electorate in general is not willing to pay the taxes to finance such promises.

If an individual successfully votes for a party that promises to increase debt, those who benefit from spending programmes or from the reduced taxes that the debt finances will benefit. However, the cost will be borne by future taxpayers. When the current generation of taxpayers dies, the debt will not die with them.

This process by which governments accumulate debt does not have to arise from conscious deliberation that leads people to decide selfishly to consume more today at the expense of future generations. The mechanisms by which the voting or political lobbying of one group lead to costs being imposed on future generations are complex and opaque. Furthermore, each group may regard their own claims to spending, transfer payments and so on as just, but political systems might find it difficult to mediate such claims.

Consider, for example, the payment of a Winter Fuel Allowance to UK pensioners. The pensioners who wish to maintain the benefit are, on average, better off than younger people who are in receipt of welfare benefits. However, they are worse off than the electorate as a whole. Many pensioners may also feel that they have been led to expect such benefits and that they are justly theirs. The costs of providing the benefit will be widely spread and therefore not obvious.

It can be the aggregation of many such claims that makes it difficult for politicians to keep spending in line with taxation. In such circumstances, it can be prudent to put restraints on ourselves and our elected representatives, to help us resist temptation. Such restraints (putting aside whether these are effective in practice) can include legislated fiscal rules.²

NOTES

1. Following the principles laid out by St Thomas Aquinas.

2. This somewhat theological virtue ethics language accords remarkably closely with the economic theory of such matters. Here it is recognised that credible policy requires external constraints. Another example would be the creation of independent central banks or tying currencies to gold to ensure that politicians did not create inflation for short-term purposes.

3. See AA Alves and JM Moereira, *The Salamanca School* (London: Bloomsbury, 2013).

4. This point was made repeatedly by the Jubilee campaign for less developed country debt forgiveness in the 1990s.

5. See RE Wagner, *Deficits, Debt, and Democracy: Wrestling with Tragedy on the Fiscal Commons* (Cheltenham: Edward Elgar, 2012).

6. See PM Booth, *Independent Review, 'Property Rights and Conservation: The Missing Theme of Laudato si'*, 21(3) for a full discussion of these issues. Proper control, as Aquinas taught us, often arises through the development and enforcement of private property rights.

7. Pope Francis, *Laudato Si'*, 158. Available online at <http://w2.vatican.va>.

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8. Pope Paul VI, *Populorum Progressio*, 17. Available online at <http://w2.vatican.va>.

9. E.g., St John Paul II in *Centesimus Annus* (11), but in the formal teaching of the Catholic Church, this goes back to *Rerum Novarum* published in 1891.

10. JM. Buchanan, CK Rowley & RB Tollison (eds), *Deficits* (Oxford/New York: Basil Blackwell, 1987), p. 65f.

11. E.g., see the *Compendium of the Social Doctrine of the Church*, 406. Available online at www.vatican.va

How government debt can undermine right relationships

As has been implied above, the accumulation of government debt is morally problematic because of its effects. In particular, it can be argued that it offends distributive justice and destroys right relationships between government and the governed. This can manifest itself in a number of ways.

Government debt can lead to inflation. This can happen for a number of reasons, not least if the

the current generation is 'reaping what they have not sowed'

government prints money or debases the currency in order to reduce the real value of its debts. The problem of inflation has been a subject of study by theologians such as the late scholastics.³ It can cause societal and economic disruption and arbitrary redistribution of wealth and income between creditors and debtors. Again, these are offences against distributive justice and, in extremis, hyper-inflation can lead to a disruption of the natural order of civil and political society.

In addition, governments may default on debt. If this happens, creditors can suffer and the government has effectively broken a promise. Ecclesiastes 5.5 says that it is better to not make a promise than to make a promise and not honour it. And, as noted above, deliberate, or even careless, default on debt breaks the Ten Commandments.

Even if these extremes are not reached, future generations may have their incomes impaired as a result of having to service and repay the debt of the generations that built it up. As we see in many countries suffering from what is often called 'austerity', or from examples such as the early 2000s Argentinean debt crisis, significant hardship might be suffered from groups who suffer tax increases or cuts in welfare benefits or government service provision as a result of the build-up of debt. These particular problems are offences against distributive justice. While there may be situations in which future generations should share costs incurred by current generations (as discussed above), it should not be the norm that the current generation should increase its consumption with the burden being systematically borne by future generations whom it can never be known will be in a position to bear it.

Government debt can also cause nations to become beholden to other countries, thus leading to a relationship of dependence. Proverbs 22.7 describes a debtor as being enslaved to the lender. Some would argue that this is the case in the Eurozone, with countries such as Greece having

their policies determined, at least to some extent, by Germany. In the UK in 1976, policy was imposed by the International Monetary Fund as the country sought a loan from the institution. Whether such policies are good or bad at the time is a separate issue. It can be argued that, in many of these cases, the governments concerned were forced by the outside entity to operate in such a way that the common good was pursued more effectively than it had been by the domestic government. Also, whether it is right or wrong to have such intervention by outside entities once the debt has accumulated is also a separate issue. The point is, if governments become indebted, the relationship between the government and the lender can transcend and become more important than the relationship between the government and the people it is elected to serve and on whose behalf it should be acting to promote the common good of the whole society. The proper ordering of political society is disrupted.

A further problem is that the servicing of debt can lead to a shortage of resources for the fundamental functions of government.⁴ This impairs the ability of government to promote the common good.

These problems of government debt are not just problems of injustice. They also involve a distortion of the right relationships that should exist in society in which the government ought to act in the service of the people to promote human dignity and the common good.

Inter-generational justice and climate change

In principle, the same arguments can be made in relation to the accumulation of government debt as are made in relation to environmental problems, such as climate change, though it could be contended that there are additional arguments when it comes to environmental questions because of our stewardship responsibilities. The phrase 'fiscal commons' is often used to describe how current generations can consume or 'graze' while imposing costs on future generations.⁵ This mirrors the 'commons problem' in relation to the environment where current generations can impose costs on future generations by over-using environmental resources over which there is not proper control.⁶

Indeed, when discussing climate change, Pope Francis has invoked the concept of inter-generational justice, just as we have here. As we have seen, inter-generational justice can be thought of as a category of distributive justice. In *Laudato Si'*, Pope Francis asked whether we are consuming now at the expense of future generations: 'The notion of the common good also extends to future generations ... We can no longer speak of sustainable development apart from intergenerational solidarity. Once we start thinking about the kind of world we are leaving to future

generations, we look at things differently; we realize that the world is a gift that we have freely received and must share with others.⁷ The analogy between the government leaving debt burdens to future generations and the destruction of the environment so that it cannot be enjoyed and used by future generations is clear.

It is sometimes argued that government debt does not lead to a net burden because citizens also own the bonds that are issued to finance the debt. There are three responses to this. Firstly, government borrowing might crowd out private investment which would raise incomes for future generations. Secondly, the bonds may be held by international investors. Thirdly, the burden is being left to people who have not chosen to bear it (future taxpayers in general) whereas the bonds are held by people who have chosen to buy them. So future generations in general are indebted to those who have chosen to buy bonds – the burden is very real.

Pope Francis is not the first pope to raise the question of inter-generational 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.'⁸ In incurring government debt and increasing government consumption beyond that which the electorate is willing to finance in taxes, the current generation is 'reaping what they have not sowed'.

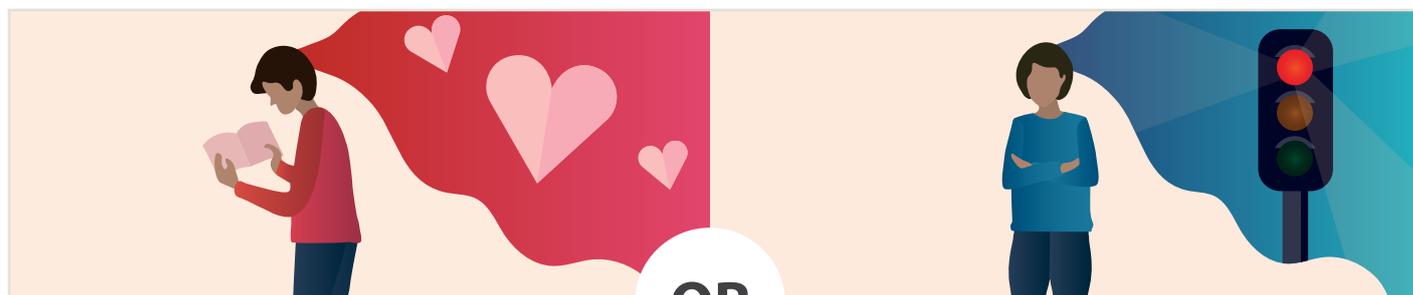
It is also important to note that the Catholic Church calls for a 'preferential option for the poor'⁹ not just because the poor are badly off compared with others, but because they lack voice and the ability to obtain justice. The political voice of

the next generation is very weak – indeed, non-existent. Their ability to have an impact on society and make change, even in democratic societies, is hampered by their station in life as children or the unborn. As such, the next generation should be given special consideration when people are deciding how to act – whether in relation to abortion, the environment or the accumulation of government debt. Our children, those born and those yet to come, have no direct voice in the decisions of governments which continue to borrow and to spend.

Conclusion

While there are justifiable reasons for governments incurring debt, if we decide to continue increasing the size and scope of our government, we should be prepared to pay for it through taxation. How big government should be, the extent of its transfers and the services it should provide are important issues. However, it is argued here that, in general, the current generation should be prepared to pay through taxes for the services and transfers provided by the government. 'A permanent increase in government spending must be financed by an increase in taxes. The choice between tax finance and debt finance essentially is a choice about the timing of those taxes.'¹⁰

The use of the power of government to promote special interests is regarded as unjust in Catholic social teaching.¹¹ Borrowing without regard for future generations can arise as a result of particular interests wishing to use government to increase the resources flowing to them. This should be resisted in the name of inter-generational justice and because of the problems that government debt can create in undermining the functions of government.



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