

# The Morality of Government Debt: An analysis based in Catholic Social Thought and Teaching

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## **Thesis Abstract**

The continued accumulation of debt and the growth of deficits among the world's most-developed nations is a subject of concern from both an economic and a moral point of view. While previous theological discussion surrounding the subject of government debt has focused on the plight of the world's smallest and poorest nations, few have focused on the moral implications of large and wealthy nations continuing to imprudently amass debt. This study takes the moral and theological arguments created during the developing-world debt crises of the 1980s and 1990s and applies them to the impending debt crises facing the world's developed nations.

By understanding the moral, theological, and economic arguments promulgated during the latter half of the 20<sup>th</sup> century, including an understanding of the Catholic Church's emphasis on the proper development of a nation and its people, as well as to the importance placed on the motives of those politicians and officials involved in transacting government debt deals, those same arguments can be applied to the situations faced by the world's developed nations who are currently facing or who may face debt crises of their own.

Applying these concepts and themes to the debt situation faced by the world's most-developed nations enables us to speak to the consciences of those lawmakers and officials who are continuing to accumulate massive debt and drive-up national deficits without making concrete plans for repaying what has been borrowed. The work also addresses those citizens in democratic nations who continue to support politicians who take the route of borrow and spend in an effort to avoid tax increases. It seeks to help all parties to concern themselves not only with short-term political gain, but with the larger ideas of intergenerational justice, the proper functioning of government and the right and proper development of their nation and themselves.

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## **Introduction**

Governments borrowing money is not a new phenomenon. For almost as long as there have been governments, there has been government borrowing. But over the last century, the issue of government debt has become more prominent and formalized through the issuance of securities (or government bonds), especially as many of the world's nations have become more comfortable carrying large amounts of debt and with continued deficit financing.

As a result of these shutdowns and the subsequent impact on businesses, including restaurants, theaters, retail shops and the like, many governments sought to provide funds to those left unemployed or in danger of losing their businesses. Stimulus grants, employment loans and increased benefits were some of the tools employed to counteract the impact of mandatory closings and reduced foot traffic. The funds which were disbursed to finance these programs were, by and large, borrowed by governments. The trajectory of government debt took a strong turn upward. The newly borrowed debt added to the already large debt piles of the nations that made the decision to engage in deficit spending and roll over their debt.

This trend of rising debt, which emerged in the 1980s in the U.S. and Japan and which has been adopted by many other nations across the globe, set governments on a path of amassing increasingly large debt obligations. Following the 2008 Financial Crisis, which began in the U.S. and spread across the globe, many nations accelerated their borrowing to finance programs to stabilize their economies. The Covid-19 pandemic saw even more borrowing, as governments sought to ameliorate the impact of the pandemic on their populations.

This paper will examine the issues surrounding government debt through the lens of the Catholic Church's teaching on human dignity, the common good, solidarity and subsidiarity and the role of government. The focus of the work will explore how and why debt is procured, how it is used and how it should be used, and the impact of that debt on those called to provide the means to service and repay it. Equally as important, the paper examines the impact of this debt on the individuals involved as borrowers and lenders, and the moral implications upon the parties involved in the debt transaction, both before and after a deal is closed.

While the Church has increasingly developed its theological approach to the issue of government debt, especially over the last 50 years, much of Her thought has been focused on the problems of developing world debt and especially on how that debt can cause harm to a nation's social fabric and increase the suffering of its citizenry. This paper will strive to apply those

theological insights to the problem of modern debt being faced by the world's more developed nations. The theological insights gained in the past have largely been of an *ex post facto* nature, that is, looking at the issue after a country has been plagued by problems arising from excess debt. It is equally important that the issue of debt be examined *ex ante*, with thought given to questions including whether the debt is truly necessary, who will benefit and whether they will help to repay the debt, and how such debt will affect the most vulnerable as well as future generations. In this paper, past insights will be applied to the processes and policies which have led governments to engage in long term deficit spending and try to offer new insights into the desirability of accumulating debt in the contemporary world.

Issues of government debt inhabit an area where politics and economics meet, and where ideas from both disciplines have relevance. As sure as debt is an economic phenomenon, it is equally a moral phenomenon. Indeed, government debt is one of only a few circumstances where one individual can create a moral obligation for another. Government officials who borrow create an obligation to repay a loan for their constituents and the people of their nation.

Since "every economic decision has a moral consequence," as Benedict XVI said (*Caritas in Veritate*, 37), the economic issues of our time should be examined from a moral standpoint. This paper will examine the issue using relevant material from economics, political thought, and theology. However, the conclusions which will be reached will be based on moral theology and the Church's teachings, especially as promulgated in the body of knowledge known as Catholic Social Teaching.

The United States Conference of Catholic Bishops says Catholic Social Teaching

...emerges from the truth of what God has revealed to us about himself. We believe in the triune God whose very nature is communal and social. God the Father sends His only Son Jesus Christ and shares the Holy Spirit as His gift of love. God reveals Himself to us as One who is not alone, but rather as One who is relational, One who is Trinity. Therefore, we who are made in God's image share this communal, social nature. We are called to reach out and to build relationships of love and justice.

Catholic social teaching is based on and inseparable from our understanding of human life and human dignity. Every human being is created in the image of God and redeemed by Jesus Christ and therefore is invaluable and worthy of respect as a member of the human family. Every person, from the moment of conception to natural death, has inherent dignity and a right to life consistent with that dignity. Human dignity comes from God, not from any human quality or accomplishment.<sup>1</sup>

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<sup>1</sup>U.S. Conference of Catholic Bishops, '*Sharing Catholic Social Teaching: Challenges and Directions*,' Introduction

Catholic Social Teaching concerns itself with “contemporary issues within the political, economic and social structures of society.”<sup>2</sup> Catholic Social Teaching serves as a foundation “on which to form our conscience in order to evaluate the framework of society and is the Catholic criteria for prudential judgment and direction in developing current policy-making.”<sup>3</sup>

Much of what we call Catholic Social Teaching comes from encyclicals promulgated by the popes of the last 150 years, starting with St. Leo XIII’s *Rerum Novarum* in 1891. Since then, numerous other encyclicals, including *Quadregesimo Anno*, *Laborem Exercens*, *Pacem in Terris* and *Laudato Si’* have been promulgated by various pontiffs and have served to expand the scope and depth of Catholic Social Teaching. Additionally, documents from various Vatican departments, as well as from national conferences of Bishops, including *Economic Justice for All*, *Respecting the Just Rights of Workers* and *A Jubilee Call for Debt Forgiveness*<sup>4</sup> have furthered the themes and concerns of Catholic Social Teaching.

These themes and concerns touch upon a wide range of areas, but all shares a common foundation – the dignity of the human person as a child of God. Catholic Social Teaching looks to apply the lessons of the Gospels to contemporary concerns, concerns which may be new or which have taken on new forms.

In *Rerum Novarum*, considered by many to be Catholic Social Teaching’s seminal document, Leo XIII wrote about “the great labor question.” He said the question demanded the attention of not only the Church, but also of “the rulers of States, of employers of labor, of the wealthy, aye, of the working class themselves....” (*Rerum Novarum*, 16) Here, Leo expressed the desire that these issues be addressed not solely by the Church, but in union with the other interested parties in society. Rather than issuing proclamations from an ivory tower, the Church would bring Catholic Social Teaching into the workplace, and would work with all concerned parties to craft solutions.<sup>5</sup>

Catholic Social Teaching calls for the Church to work within the world, with the people of the world, to address the concerns of the world. The teachings stress several themes, including

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<sup>2</sup> *The principles of Catholic social teaching: A guide for decision making from daily clinical encounters to national policy-making*

<sup>3</sup> Ibid

<sup>4</sup> All three promulgated by the U.S. Conference of Catholic Bishops

<sup>5</sup> At the same time, he cautioned “We affirm without hesitation that all the striving of men would be vain if they leave out the Church.” (*Rerum Novarum*, 16)

calls to family, community and participation, along with an option for the poor. The rights and dignity of all, including workers, are also important, as are ideas of subsidiarity and solidarity. Catholic Social Teaching also stresses the importance of humanity as stewards of the Earth, a role given when God placed Adam and Eve in the Garden.

When Pope Leo XIII promulgated *Rerum Novarum*, he drew from Scripture, from Aquinas, from the Fathers of the Church and from other traditional sources to explain the Church's understanding of what he called "the great labor question." Leo, and the pontiffs and theologians who came after him, worked to apply the eternal truths taught by the Church to the changing circumstances of different times and places. This work will strive to follow the same pattern and apply the truths taught by the Catholic Church to contemporary issues.

### **The Church's Teaching on Economic Matters**

The economy exists to serve humanity. Economic systems are created by mankind and run by human beings. There are no natural laws outside of man's control which act on the market. The buying, selling, and trading is all performed by humans. This is not to say that external forces (such as the Covid-19 outbreak) don't influence the behavior of participants in the market, but rather to say the final decisions which lead to human action originate in the minds of men. "People shape the economy and are shaped by it."<sup>6</sup> Catholics who examine an economic system, as with any system, must ask how it affects humans and whether it helps humanity achieve its true purpose.

In *Economic Justice for All*, the U.S. Catholic Bishops wrote "Every perspective on economic life that is human, moral and Christian must be shaped by three questions: "What does the economy do for people? What does it do to people? And how do people participate in it."<sup>7</sup>

The Church approaches economic issues as moral issues because, ultimately, such issues affect humans and the manner in which they live. As economist Rupert Ederer wrote:

The Church realizes something as basic as the question of the possession of material goods has a direct effect on man morally and hence spiritually. (e.g., men are often driven away from their focus on God, for different reasons, if they have either overabundance of material wherewithal or an extreme insufficiency.) She also understands how men are led to many moral evils in other realms, (e.g., revolutions and upheavals in politics, various kinds of crime) if moral

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<sup>6</sup> USCCB, *Economic Justice for All*, Chapter 1, no. 5

<sup>7</sup> Ibid, Chapter 1 no. 1



ordering of their economic lives are deficient. At bottom, while wealth creation, profit, economic growth, etc., are appropriate objectives for economic activity, economics is for man and not man for economics.<sup>8</sup>

When considering issues of economics, politics, social problems and the like, those who follow the teaching of the Catholic Church can call on over 2,000 years of history and thought. For two millennia, the Church has concerned itself with the problems of Man and his life on Earth, as well as the issue of humanity's ultimate destiny. In that time, Catholic philosophers, theologians, politicians, laity, and clergy have experienced all manner of government, all manner of culture, all manner of economic systems and social expression. And in that time, the people of the Church have come to realize that, unlike issues of faith and morals, questions of economic or political policy may have more than a single solution which can be deemed good and right.<sup>9</sup>

It must be remembered that as situations change, the ideal solution will also change. It is entirely possible that, due to a policy solution instituted now, the economic and political situation will change entirely in the future, which would necessitate a new policy, more appropriate to the changed situation, being implemented.

As the U.S. Bishops wrote in "*Economic Justice for All*" "There is certainly room for diversity of opinion in the Church and in U.S. Society on how to protect the human dignity and economic rights of all our brothers and sisters." (*Economic Justice for All*, 84) They also remind us that we must approach these questions, not in a spirit of partisanship or political division, but as brothers and sisters in Christ, members of His Mystical Body, intent on discerning the truth. At the same time, we are members of the Church living in community and engaged in society. It is the task of the laity to deal concretely with these problems. John Paul II, in *Sollicitudo Rei Socialis* wrote:

The Church's social doctrine is not a "third way" between liberal capitalism and Marxist collectivism, nor even a possible alternative to other solutions less radically opposed to one another: rather, it constitutes a category of its own. Nor is it an ideology, but rather the accurate formulation of the results of a careful reflection on the complex realities of human existence, in society and in the international order, in the light of faith and of the Church's tradition. Its main

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<sup>8</sup> Ederer, *Economics as if God Mattered*, p. xiv

<sup>9</sup> When people ask, "Why should we pay attention to the Church when it's an economic matter," we can answer "What other institution in human history has been studying the issue for so long and in so many varied environments." The Church has 2,000-plus years of institutional knowledge to draw on. It wants to take that knowledge and bring it to the people in a way that can be understood and appreciated. In this way, the Church can act as leaven for society and act according to the wishes of Jesus Christ, who told His Apostles to "make disciples of all men."

aim is to interpret these realities, determining their conformity with or divergence from the lines of the Gospel teaching on man and his vocation, a vocation which is at once earthly and transcendent; its aim is thus to guide Christian behavior. (*Sollicitudo Rei Socialis*, 41)

In *Laborem Exercens*, John Paul II reflected on the changes which took place in the 90 years since St. Leo XIII promulgated *Rerum Novarum*. He wrote “new conditions and demands will require a reordering and adjustment of the structures of the modern economy and the distribution of work.” He points out

It is not for the Church to analyze scientifically the consequences that these changes may have on human society. But the Church considers it her task always to call attention to the dignity and rights of those who work, to condemn situations in which that dignity and those rights are violated, and to help to guide the above-mentioned changes so as to ensure authentic progress by man and society. (*Laborem Exercens*, Introduction)

The Church never acts alone in its analysis of the social questions, Leo XIII wrote.

We approach the subject with confidence, and in the exercise of the rights which manifestly appertain to us, for no practical solution of the question will be found apart from the intervention of religion and of the Church. It is we who are the chief guardian of religion and the chief dispenser of what pertains to the Church; and by keeping silent we would seem to neglect the duty incumbent on us. Doubtless, this most serious question demands the attention and the efforts of others besides us – to wit, the rulers of states, or employers, of labor, of the wealthy, aye, of the working classes themselves, for whom we are pleading. But we affirm without hesitation that all the striving of men will be in vain if they leave out the Church. (*Rerum Novarum*, 16)

When working with others, especially those who do not follow the teachings of the Church, care must be taken to ensure all are treated with the respect, dignity and love to which they are deserving as children of God. As John XXIII said

Differences of opinion in the application of principles can sometimes arise, even among Catholics. When this happens, they should be careful not to lose their respect or esteem for each other. Instead, they should strive to find points of agreement for effective and suitable action, and not wear themselves out in interminable arguments, and, under pretext of the better or the best, omit to do the good that is possible and therefore obligatory.

In their economic and social activities, Catholics often come into contact with others who do not share their view of life. In such circumstances, they must, of course, bear themselves as Catholics and do nothing to compromise religion and morality. Yet at the same time, they should show themselves animated by a spirit of understanding and unselfishness, ready to cooperate loyally in achieving objects which are good in themselves or can be turned to good. Needless to say, when the Hierarchy has made a decision on any point Catholics are bound to obey their directives. The Church has the right and obligation not merely to guard ethical and religious principles, but also to declare its authoritative judgment in the matter of putting these principles into practice. (*Mater et Magistra*, 238-239)

The Church approaches economic issues as moral issues because, ultimately, such issues affect humans and the manner in which they live. As economist Rupert Ederer wrote:

The Church realizes something as basic as the question of the possession of material goods has a direct effect on man morally and hence spiritually. (e.g., men are often driven away from their focus on God, for different reasons, if they have either overabundance of material wherewithal or an extreme insufficiency.) She also understands how men are led to many moral evils in other realms, (e.g., revolutions and upheavals in politics, various kinds of crime) if moral ordering of their economic lives are deficient. At bottom, while wealth creation, profit, economic growth, etc., are appropriate objectives for economic activity, economics is for man and not man for economics.<sup>5</sup>

First and foremost, the economy exists to create and distribute the goods and services needed by humanity to fulfill their ultimate purpose, that eternal union with God in Heaven. It was for this that man was created, and any human system, to be recognized as good, must aid in achieving this goal.

As one looks at economic systems, and judges them according to this standard, other ends which the system might serve should not be ignored. A vibrant economy can lead to a higher standard of living, with greater health and material comfort for its participants. Profit is a legitimate goal of any business, and it enables the continuation and expansion of a concern. An economic system can be legitimately concerned with ensuring equitable distribution of wealth and the rewards of the market, the protection of private property and more and better material production. But a system must not subsume man's ultimate purpose to these or to any other factors.

The satisfaction of material wants is a legitimate function of any economy, but:

Satisfying material needs and wants, by using means which degrade and dehumanize human beings, can never be a legitimate end of human activity. What constitutes a legitimate material end or means varies according to cultural factors and the stage of development of a people, but what is good for a truly human existence must be the norm in all cultures and circumstances. Excessive dependency on goods of any kind; consumerism, which means they become an end in themselves; having, for the sake of having instead of having for reasonable use generously interpreted, demeans human nature. Needs and wants must also be satisfied in a manner which is socially responsible; to want to satisfy my own requirements while ignoring the legitimate needs of others, for example by paying those who supply me less than is just, is disordered. The production of superfluous goods to meet neither need nor reasonable wants, but simply to enable possession for the sake of possessing, raises the question of maldistribution of resources. The capital invested in that production of work should be used, earning a reasonable market-determined profit, for the production of basic goods which others need and of which they are deprived. The

earth's resources are for all, and it should not be beyond the wit of mankind, whose creativity in economic and technical matters grows by leaps and bounds, to find ways of directing market forces into these constructive channels.<sup>10</sup>

The Church has certain teachings and provides certain tools which can help with the examination of economic questions. For instance, the Book of Genesis teaches that man has been placed on the Earth as the steward of creation. Humanity is meant to nurture the Earth, to benefit from its goods and to ensure that the gifts of creation are equitably distributed.

The Church teaches that men and women are to act in solidarity with all. The Church says solidarity “is not a feeling of vague compassion or shallow distress at the misfortunes of so many people, both near and far. On the contrary, it is a firm and persevering determination to commit oneself to the common good; that is to say, to the good of all and of each individual, because we are all really responsible for all.” (*Sollicitudo Rei Socialis*, 38)

The Church also teaches there is a preferential option for the poor, and that humanity is called to actively support the poor, whether that poverty be material or spiritual.

In seeking to promote human dignity, the Church shows a preferential love of the poor and voiceless, because the Lord has identified Himself with them in a special way (cf. Mt.25:40). This love excludes no one, but simply embodies a priority of service to which the whole Christian tradition bears witness. This love of preference for the poor, and the decisions which it inspires in us, cannot but embrace the immense multitudes of the hungry, the needy, the homeless, those without medical care and, above all, those without hope of a better future. (*Ecclesia in Asia*, 34)

These and other principles of Catholic Social Teaching, including the ideas of subsidiarity and solidarity, the dignity of work and the rights of workers, and care for God's creation, will be used in this paper to discuss the purpose of the economy more thoroughly in the chapters ahead.

### **Policy Decisions**

In her role as teacher, the Church and her experts are called to guide the layman, but unless a theologian has expertise as a politician or economist, for example, it is not their role to propose specific policies. As John XXIII said, it is the task of the laity to “live an active life in the world and organize themselves for the attainment of temporal ends.” (*Mater et Magistra*, 240) He also said:

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<sup>10</sup> Charles, *Christian Social Witness and Teaching*, Vol. 2, p. 416

In performing this task, which is a noble one, they must not only be well qualified in their trade or profession and practice it in accordance with its own proper laws, they must also bring their professional activity into conformity with the Church's social teaching. Their attitude must be one of loyal and filial obedience to ecclesiastical authority.

They must remember, too, that if in the transaction of their temporal affairs, they take no account of those social principles which the Church teaches, and which we now confirm, then they fail in their obligations and may easily violate the rights of others. They may even go so far as to bring discredit on the Church's teaching, lending substance to the opinion that, in spite of its intrinsic value, it is in fact powerless to direct men's lives. (*Mater et Magistra*, 241)

The people of God are called to engage the world, to better society and to show men the path to their salvation. At His Ascension, Jesus charged his followers to "teach ye all nations, baptizing them in the Name of the Father, and of the Son, and of the Holy Ghost. Teaching them to observe all things whatsoever I have commanded you: and behold, I am with you all days, even to the consummation of the world." (*Matthew* 28: 19-20)

But the Church recognizes there are different spheres of life and acknowledges the expertise of those who have worked in various fields. Economists, businessmen, politicians, and craftspeople all possess special skills and insights which come from their training and experience. This paper will draw out principles to assist in understanding the morality of government debt used for specific purposes. However, it will not recommend specific policy decisions. How these principles are put into action will require economic and political actors who are informed by these principles and who will apply them to the circumstances of their specific situations.

When looking for answers, it must be ensured theologians and scholars do not overreach their bounds. It is right and just to examine the question and propose certain solutions. But those making proposals must also be humble enough to know the specific details of any solution would be best crafted by people with training and experience in the economic, business, and political spheres. A theologian can certainly tell the world that a proposed solution is unacceptable on a moral or ethical basis but is less capable of dismissing a potential program on technical grounds.

It must also be remembered that behind every economic decision is a human being who makes a decision. Laws and policies do not appear out of thin air. They are crafted by people who decide how the law will read, and who decide whether to approve or reject it as part of their legislative duty.

## Literature Review

A great deal of work has been done by economists and theologians concerning the problems raised by excessive government debt. Papers from the Pontifical Council for Justice and Peace and the U.S. Conference of Bishops, as well as the OECD, International Monetary Fund and the World Bank have raised questions about how to alleviate the negative social impacts, from perspectives both religious and economic, though they have mostly given their attention to nations with small, weak economies. In 1998, Seton Hall University hosted a Conference on the Ethical Dimensions of International Debt. Speakers such as former-IMF head Michael Camdessus addressed the issue of international debt, but almost exclusively dealt with how that debt affected the poorest among us. Given the circumstances of the last three decades, and the changing face of the international debt crisis, it would seem timely to study how we can apply what was learned in the past to the situation in the world today.

This analysis of government debt and related issues will use Catholic Social Teaching, Scripture, and documents derived from these sources. During the African and Latin American debt crises of the 1980s and 1990s, many theologians and national bishops' conferences issued statements and papers detailing the need for debt relief and reduction. The theological arguments presented at that time still have relevance today, albeit applied to different situations.

As mentioned above, the majority of material under the heading of Catholic Social Teaching was espoused in papal encyclicals, conciliar documents, and other letters and articles promulgated by the Church. *Mater et Magistra* and *Pacem in Terris* by John XXIII, the Vatican II documents *Gaudium et Spes* and *Dignitatis Humanae* and Paul VI's *Populorum Progressio*, *Octogesima Adveniens* and *Evangelii Nuntiandi* are all considered to be among the foundational documents of Catholic Social Teaching.

Much of the writing of John Paul II, including *Veritatis Splendor*, *Evangelium Vitae* and *Dignitatis Humanae* have informed Catholic Social Teaching. Of particular interest to the study of government debt are John Paul II's *Centesimus Annus*, *Ecclesia in America* and *Ecclesia in Asia*, which include his pleas for a reasonable solution to the problems of developing country debt. In *Centesimus Annus*, for example, he writes "the principle that debts must be paid is certainly just. However, it is not right to demand or expect payment when the effect would be the

imposition of political choices leading to hunger and despair for entire peoples.” (*Centesimus Annus*, 35)

*Tertio Millennio Adveniente* saw John Paul II calling for a preparation of the Jubilee Year 2000. In the text, he said “Christians will have to raise their voices on behalf of all the poor of the world, proposing the Jubilee as an appropriate time to give thought, among other things, to reducing substantially, if not canceling outright, the international debt which seriously threatens the future of many nations.” (*Tertio Millennio Adveniente*, 51)

A major theme in the discussion of government debt is intergenerational justice, the idea that the present generation must consider the impact of its actions upon future generations and act in a just manner toward those yet to be born. Pope Francis expounds on this idea in his encyclical on the environment, *Laudato Si’*. In the encyclical, he warns “We can be silent witnesses to terrible injustices if we think that we can obtain significant benefits by making the rest of humanity, present and future, pay the extremely high costs of environmental deterioration.” (*Laudato Si’*, 36)

Throughout the encyclical, Francis reminds readers that decisions made today will impact the lives of future generations. Although his focus in the encyclical, for the most part, is the Earth’s environment, his concern for the future finds a parallel in the debt discussion.

Inspired by these papal documents, many of the world’s Catholic bishops began calling for debt relief or debt forgiveness for the world’s poorest nations. The U.S. Council of Catholic Bishops, for instance, released “*Called to Global Solidarity*” in 1997 and “*A Jubilee Call for Debt Forgiveness*” in 1999. Both documents contained calls for Catholics and all people of good will to work toward alleviating the debt burden felt by the world’s poorest nations. Similarly, “*A Call for Solidarity With Africa*,” promulgated in 2001, called for debt relief for the poor nations on that continent.

The New Zealand Bishops Conference was another body which called for debt relief. In 1998 it issued “*Debt: An Intolerable Burden*,” calling for charity and good will toward the poorest of the debtor nations.

CIDSE and Caritas Internationalis also joined their voices to the calls for debt relief. In 1998, the two groups joined their voices to issue “*Putting Life Before Debt*,” which spoke in favor of debt relief for the poorest nations.

The theological focus of most of the writing about government debt up to the present time was on alleviating the suffering of those in the world's poorest and most heavily indebted nations. A second focus concerned the impact that indebtedness had on the relationship, and especially the power relationship, between the world's richest nations lending money to its poorest and continuing the cycle of debt.

In *Millennium Development Goals and Catholic Social Teaching: Ongoing Responsibility and Response*,<sup>11</sup> James O'Sullivan argued that Catholic Bishops and the Vatican needed to increase efforts to help the world reach previously stated development goals for the global poor. Kishor Thanawalam in *Globalization and Economic Justice: A Catholic Social Teaching Perspective*,<sup>12</sup> contended that problems of poverty and justice are at the core of the social questions in Catholic Social Teaching. *Roman Catholic Teaching on International Debt: Toward a New Methodology for Catholic Social Ethics and Moral Theology*,<sup>13</sup> by M. Therese Lysaught, focused on the highly-indebted poor countries, but didn't mention debt issued faced by the developed world. An article by Elizabeth A. Donnelly, *Making the Case for Jubilee: The Catholic Church and the Poor Country Debt Movement*,<sup>14</sup> traces the arguments made by the Church in favor of debt relief for the poorest nations.

These calls for debt relief were echoed by myriad economic and political writers. New York Times and Nobel laureate Paul Krugman, for one, was writing about the subject of debt relief as early as 1990.<sup>15</sup> Other prominent writers studying the issues surrounding government debt included Joseph Stiglitz, Kenneth Rogoff and Carmen Reinhart.<sup>16</sup> *Debt: The First 5000 Years*, a book by sociologist David Graeber, was aimed at the popular audience, and generated sales and buzz on its release in 2014. Collections of essays, including *Overcoming Developing Debt Crises* published by Oxford University Press and *Sovereign Debt: From Safety to Default*, part of the Robert W. Kolb Series in Finance, and published by John Wiley and Sons, were also published in the early part of this century.

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<sup>11</sup> *Lumen et Vita*, May 5, 2011

<sup>12</sup> *Journal of International Business Education*, Vol. 4, 2009

<sup>13</sup> *Journal of Moral Theology*, Vol. 4, No. 2 (2015)

<sup>14</sup> *Ethics and International Affairs*, Vol. 21, March 2007. In fact, the entire issue of this publication was focused on the ethics of sovereign debt.

<sup>15</sup> *Debt Relief is Cheap*, Foreign Policy, Autumn 1990

<sup>16</sup> Popular entertainment figures, including musicians Bob Geldorf and Bono, also raised their voices in favor of debt relief.



While much of the writing on government debt had concerned itself with developing country debt, less had been written about the debt of developed nations. However, since the Great Financial Crisis of the aughts, there has been more attention paid to the debt problems of richer nations.

The debt crisis in the euro zone, which saw austerity programs enacted in nations including Portugal, Greece, Ireland and Spain, generated numerous books and articles discussing the pros and cons of these programs. *Austerity: When it Works and When it Doesn't*,<sup>17</sup> by Alberto Alesina, Carlo Favero and Francisco Giavazzi, and *Austerity: The History of a Dangerous Idea*,<sup>18</sup> by Mark Blyth both examined the economic and human costs of the austerity programs carried out in the euro zone. Carlo Cottarelli, in *What we Owe: Truths, Myths and Lies About Public Debt*,<sup>19</sup> discussed the economic and social costs paid when nations have to deal with too much debt.

Another thread of the discussion surrounding issues of government debt concerns itself with intergenerational justice. U.S. Senator Tom Coburn was co-author of 2012's *The Debt Bomb*,<sup>20</sup> which warned future generations would be paying the price for the current generation's financial excesses. Other authors who wrote about similar concerns include Laurence Kutlikoff and Scott Burns in *The Coming Generational Storm*,<sup>21</sup> Michael Lewis in *Boomerang: Travels in the New Third World*<sup>22</sup> and Justin Welby in *Mammon: Making Money Serve Grace*.<sup>23</sup>

The majority of writers have focused their efforts on studying and discussing the impact of government debt on nations and peoples after the debt has been procured. Fewer question whether procuring such debt is proper and moral, or how to use such money in a moral manner.<sup>24</sup> And while much of the discussion of debt is *ex post facto* in nature, there have been some who are addressing the issue *ex ante*, discussing issues raised before the debt is procured.

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<sup>17</sup> Princeton University Press, 2019

<sup>18</sup> Oxford University Press, 2013

<sup>19</sup> Brookings Institute Press, 2017

<sup>20</sup> Thomas Nelson Publishers, 2012

<sup>21</sup> MIT Press, 2004

<sup>22</sup> W.W. Norton & Co., 2011

<sup>23</sup> Bloomsbury Publishing, 2016

<sup>24</sup> Even fewer have addressed the impact such debt might have on the parties responsible for borrowing and lending from a moral perspective. Later chapters of this paper deal with that matter.

Among this are Philip Booth, whose work includes *Government Debt: A Neglected Theme of Catholic Social Teaching*, which was co-authored with Richard Turnbull, Kaetana Numa and the PhD candidate,<sup>25</sup> as well as *Catholic Social Teaching and the Market Economy*.<sup>26</sup> Another contemporary author who writes about the moral impact of government debt is Samuel Gregg. In one essay, *Catholics and the Morality of Debt*,<sup>27</sup> he questions why no one is asking questions about debt. He also warned, in 2010's *Deficits, Debt and Self-Deception*,<sup>28</sup> that "Societies that embrace excessive indebtedness as a way of life eventually begin to deceive themselves."

Ilsup Ahn, in *Just Debt: Theology, Ethics and Neoliberalism*,<sup>29</sup> discussed debt from an ethical point of view, and mentioned three qualifications – serviceability, payability and shareability – which he says makes debt or a debt contract moral.

This paper intends to pick up on some of these latter themes and concerns to discuss issues government raises *ex ante*, along with the moral responsibilities of those involved in the debt transaction and the possible moral impacts such economic transactions can have on the parties involved.

### **The Scope of the Discussion**

Government debt is neither good nor evil. Rather, it is a tool which, like any tool, can be used for good or ill.

This paper will focus on how individuals utilize this tool, and the impact that the economic transaction has upon those transacting the debt agreement. As mentioned, the Church teaches that the economy exists for humans, and a moral judgment can be made regarding economic transactions based on how those transactions affect the body and soul of human beings.

Additionally, the paper will examine how excess government debt can impact a national government's behavior and possibly hamper its proper functioning. The study will also examine

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<sup>25</sup> Centre for Enterprise, Markets and Ethics, 2021

<sup>26</sup> Institute of Economic Affairs, 2014

<sup>27</sup> Legatus.org

<sup>28</sup> Ibid

<sup>29</sup> Baylor University Press, 2017

how excess government debt can negatively impact the people of a nation and their relationship with their leaders. Also, the manner in which one nation's debt can, through contagion, negatively impact its neighbors will be explored.

Much of the theology surrounding government debt deals with the issue of debt relief for the world's poorest nations. While this paper will explore that aspect of the problem, it will also discuss aspects of the issue which have not received as much attention from theologians and others. One such aspect is the impact of government debt on the world's developed nations, their economies, and their people. For instance, in an effort to relieve its debt burden, the nation of Greece instituted an austerity program which led to many of its citizens losing their jobs or seeing their government benefits reduced. This led to a great amount of suffering among the Greek people and was seen as a cause of that nation's increased unemployment, divorce, and suicide rates.

The Covid-19 pandemic led to government borrowing on a scale hitherto reserved for wartime or the worst of national disasters. Unlike episodes in the past when governments would only borrow heavily to finance extraordinary responses to extraordinary events, many of the governments extant in 2019, at the time the coronavirus first hit, already possessed large debt obligations. This debt had been accumulated over three or four decades which saw the world's developed nations borrow, roll debt over, refinance and borrow again. Little effort was made to pay back already borrowed money, and little effort was made to temper government spending or bring it into accord with government revenues.

At the end of fiscal year 2022, according to the U.S. Treasury, the government's debt totaled \$30.9 trillion.<sup>30</sup> In Canada, the government's debt at the end of 2021 stood at over 1 trillion Canadian dollars.<sup>31</sup> The U.K. Office for National Statistics said the U.K. general government gross debt was GBP2.365 trillion at the end of March 2022.<sup>32</sup> For many of the other nations in the G7, the situation was the same. Government debt numbers were high and were increasing.

These governments were, arguably, properly using the tool of government debt to alleviate the suffering of their citizens and to stabilize their economies. However, this borrowing

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<sup>30</sup> U.S. Treasury Dept., *Debt to the Penny*

<sup>31</sup> Tradingeconomics.com, *Canada Government Debt*

<sup>32</sup> U.K. Office for National Statistics, *U.K. Government Debt and Deficit*

served to increase the already bloated debt piles which had been accumulated over decades of arguably improper borrowing.

There is no panacea to the myriad of problems which can emerge and be exacerbated by too much government debt, by the continued accumulation of more debt or by the inability or unwillingness of a government to reduce debt to manageable levels.

When we ask, “Why this solution, and not another?” we must be aware at all times that our answer could directly impact the lives of many people. The Catholic understanding is that life lived in community is a blessing and a grace. Men live in community because, as God said, “It is not fit for man to live alone.” Truth is found, not in isolation, but in community and in the context of community. Truth is lived in community. Therefore, decision making must take into account the common good of that community. It should be remembered the decisions that are made on political issues and economic concerns may result in someone, somewhere, not having a place to live or a meal to eat.

Before exploring the situation of the current day, it would be helpful to see how nations in the past dealt with the issue of excess and untenable government debt. This paper will begin with a look at the Church’s understanding of debt and how it should be used. This understanding encompasses both the economic and the moral aspects of debt, its impact on human beings, and includes the impact of the debt on the parties who transact the debt as well as those obligated to repay it.

The idea of government debt cannot be fully studied without an understanding of the scope of a government’s responsibilities. The Church has taught that the role of government is to help bring about conditions which allow for the full flourishing of humanity. And while the Church doesn’t advocate for any specific system of government above all others, it recognizes that good governments share common characteristics, regardless of time or place. The Catechism states “It is the role of the state to defend and promote the common good of civil society, its citizens and intermediate bodies.” (*Catechism of the Catholic Church*, 1910.) How a state carries out this responsibility will vary, but a state cannot be said to be good which does not or cannot promote the common good. These are issues which will be covered in greater detail in Chapter 2.

The next three chapters will explore the history of government debt, as well as past responses to the problems of excess debt.

Chapter 3 recounts how some governments in the past accumulated excess debt along with the problems which resulted. Cautionary tales abound, from the loss of internal and external political power to the dissolution of nations and the collapse of empires.<sup>33</sup>

The 20<sup>th</sup> century saw an explosion of government borrowing across the globe. Chapter 4 examines why and how this occurred. In some cases, the debt was used wisely and well, while in others overleverage and misuse led to myriad problems for nations and peoples.

Chapter 5 will look at the theological responses to these problems. Throughout the last century, churchmen, scholars, politicians and many others discussed the proper development of people and how the uses of government debt would help or hamper that development.

As the 1980s began, ore attention began being paid to the plight of the world's less-developed but highly-indebted nations. The response from theologians, the Vatican, bishops and from all people of good will led to attempts to alleviate the suffering in those nations and to create more just and equitable systems to distribute the world's goods.

It is from here, from the efforts to aid the poorest, that a theology of debt began to be formed. The arguments in this paper draw from those efforts and will seek to extend the scope of concern to the world's more developed economies, while also focusing on how and why such debt is accumulated and evaluate debt both *ex ante* as well as *ex post facto*.

Chapters 6 and 7 look at the role virtue and justice play in scrutinizing government debt. Prudence, temperance and fortitude are all virtues which should be present in any analysis of government debt. Likewise, debt should be judged justly. Ideas of distributive, commutative and social justice, rightly understood, can offer guidance to those examining debt and its uses.

Likewise, the idea of intergenerational justice, as well as a preferential option for the young, are important factors to consider. Chapter 8 will explore the importance of intergenerational justice and what is owed to the future, informed by humanity's role as stewards of the earth and the Catholic understanding of the Communion of Saints.

The final chapter explores a possible way forward toward a better understanding of the moral issues surrounding government debt. Questions of debt and debt repayment must be examined as not only economic issues but also as moral issues. The final chapter looks at several

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<sup>33</sup> To reiterate, a tool such as government debt has been used successfully and unsuccessfully throughout history. While this paper will focus on the unsuccessful cases, it must be acknowledged that government borrowing has led to many successful programs and projects as well.

responses to the problem of excess government debt which were used in the past through the lens of Catholic Social Teaching, in an effort to determine which solutions best serve the proper development of people and the continuance of good government. Inflation, default and austerity were some of the methods used to deal with the fallout of excess government debt, as was debt forgiveness. All these responses will be examined the Chapter 9.

Further, as it would benefit society and governments to more closely examine why and how debt is being raised before the debt transaction takes place, the paper concludes with the idea that pre-emptive action taken before debt is incurred might be one method to help prevent a repeat of the debt crises seen in the past.

Instructing politicians in the proper use of the tool that is government debt, greater concern for and sharing of the goods of the Earth, and cooperation in development are just some of the ideas to be explored when it comes to reanalyzing how and when debt should be incurred. These ideas are explored at greater length in the final chapter.

### **A Note on Sources**

All Biblical references, unless otherwise noted, come from *The New Jerusalem Bible*, Reader's Edition, published by Doubleday in 1990. All references to *The Summa Theologica* of St. Thomas Aquinas, unless otherwise noted, were drawn from resources available at newadvent.com. All Vatican documents, including encyclicals and conciliar texts, were accessed via the Vatican.va website, unless otherwise noted.

## Chapter One

### A Catholic Understanding of Debt

Why would a government need to borrow money?

Although governments have the power to mint currency, raise funds through taxation and compel citizens to perform labour, there are circumstances where governments have resorted to borrowing to fund operations. Throughout history, governments have borrowed to wage war, (some just and some unjust), and, during times of famine, drought and economic upheaval, to succor the citizenry.<sup>34</sup> The means and motives to borrow have evolved over time, but even from the earliest forms of government there have been circumstances where they needed to utilize debt.

In the early kingdoms of the Fertile Crescent, as well as the ancient empires of Asia and Africa, it was the temples which acted as storehouses of goods and grains, from which the ruling classes could draw surplus in times of need. In her study of the Tutsi kingdoms of Africa, Lucy Mair concluded (she could equally well have been discussing the Israelites, Medes, Tongans or any other society):

‘We begin to see already how important it is for the building up of kingship that the society should have some surplus of wealth which can be concentrated in the hands of the rulers and used for purposes of state.’

Power, therefore, lies in disposable surplus. But the process of state building did not stop at mere military sufficiency. The redistributive cycle implicit in the chiefly practice of gift exchange could be, and was, extended into far-reaching powers of economic management in the most sophisticated and evolved situations.<sup>35</sup>

The powers that be would use the temples’ stores to distribute food and largesse to the people in times of famine or crisis. Further, these stores could be used to feed the workers who laboured to build the wonders of the ancient world, their roads, walls, monuments, and tombs.

Obviously, the government debt and expenditures of the temple economies is not to be understood as paralleling the idea of government debt as practiced today. Given the connection between the political rulers and the religious hierarchy in those societies, it was a case of the rulers “borrowing” from their own stores, rather than tapping an outside lender, to raise funds.

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<sup>34</sup> To cite one example, in Qin China, during the Rebellion of the Seven States, groups of noblemen borrowed money from merchants in an effort to defeat the rebels

<sup>35</sup> MacDonald, *A Free Nation Deep in Debt: The Financial Roots of Democracy*, p. 15-16

However, the example serves to show how, even in the earliest forms of government, wealth was expended to protect the people and also to provide assistance in times of distress. While there are fundamental differences between borrowing and running up a deficit, as opposed to the use of accumulated assets, the considerations are much the same. A government cannot always rely on revenue matching its expenditure needs.

## **Jubilee**

An important aspect of debt in ancient civilizations is the idea of jubilee, a time when debts are forgiven, slaves emancipated, and land returned to its original owners. In Mesopotamia, Babylon and other societies in the Fertile Crescent, the rulers would find it expedient to proclaim debt amnesties, freeing debtors from any further obligation to repay their lenders.

It is important to remember that the idea of debt was very different 4,000 years ago from the contemporary understanding. The modern concepts of corporate or consumer debt were not practiced by the ancients. Rather, a person would usually go into debt only in times of hardship, to procure food for his family or land to grow that food. The debtor would be forced to pay interest and often to send a child to work as a servant at the home or farm of the lender. A family farming borrowed land was expected to return a portion of their crop each year to the land's owner – an early form of sharecropping.

The jubilee amnesties were a means to restore social bonds which had become fractured by debt. Land was restored to its original owners, children were reunited with their families, workers could again enjoy the full fruits of their labours and neighbors were once again equals, and not debtors and lenders.

Pope John Paul II was explicit in his calls for a debt jubilee throughout his reign. In 1999, he said “Today’s world has need of a Jubilee experience. So many men, women and children are unable to realize their God-given potential. Poverty and gross inequalities remain widespread, despite enormous scientific and technical progress.”<sup>36</sup>

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<sup>36</sup> *Message of the Holy Father to the group “Jubilee 2000 Debt Campaign,”* Sept. 23, 1999



He drew on the Jewish understanding of Jubilee, a time for debt forgiveness, in his calls for debt relief for the world's poorest nations.<sup>37</sup>

The Book of Leviticus contains the Hebrew law calling for a jubilee once every 50 years. "You will declare this 50<sup>th</sup> year to be sacred and proclaim the liberation of all the country's inhabitants. You will keep this as a jubilee: each of you will return to his ancestral property, each to his own clan." (*Leviticus 25:10*)

The idea of jubilee must be understood as more than just the forgiveness of debts owed. Jubilee restores the social bonds which were sundered by debt. The forgiveness of debt served to restore the social balance in the empires of the Fertile Crescent.<sup>38</sup> Further, it served to remind the Israelites that, ultimately, all things came to them from God, and all He had made was meant for use by all His children.<sup>39</sup>

This idea that indebtedness is more than a mere economic phenomenon permeates the Catholic Church's understanding of debt. The idea of debt is tied into our relationship with God and our relationship with others. Debt is a human experience, not merely an economic transaction. An understanding of the proper role of debt begins with the Jewish law, given by God to Moses and the children of Israel.

From the first, the Jewish law forbade taking advantage of another Jew's misfortune and tying them to debt. Instead, the needy were to be given what was necessary in full, with no resentment on the part of the giver. This idea is echoed in the Catholic teaching on the Universal Destination of Goods. "In other words, no one has an unconditional and absolute right to private

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<sup>37</sup> See, for example, part II of the Apostolic letter *Tertio Millennio Adveniente*, which contains reference to the Jewish law on Jubilee as espoused by Jesus Christ, St. Paul and St. John, along with references to Deuteronomy, Leviticus and Isaiah

<sup>38</sup> It was not only the empires in the Near East which saw that debt could create severe problems in the social order. During the Tokugawa Shogunate in Japan, samurai were expected to keep up appearances, even as many were being discharged from service due to the high cost of maintaining an army of swordsmen in a time of peace. Many desperate samurai ended up in debt to moneylenders and would be forced to sell clothing and swords to raise funds. "Having samurai at their mercy not only earned the merchants a measure of profit, it also gave them significant symbolic leverage over their samurai superiors." And "by the mid-eighteenth century, popular representations abounded of poor samurai pawning the clothes and swords off his back for a little extra cash. Then a merchant redeemed them and paraded around the city in the purchased finery." (Tokugawa Japan: An Introductory Essay, Marcia Yonemoto, accessed at [www.colorado.edu/cas/tea/curriculum/imagining-japanese-history/tokugawa.essay.html](http://www.colorado.edu/cas/tea/curriculum/imagining-japanese-history/tokugawa.essay.html))

<sup>39</sup> During the Jubilee, Leviticus enjoined the Israelites from sowing or reaping, and also of eating the things that grew in the fields of their own accord. (Leviticus 25:11). Similar to the Sabbath, the Jubilee was a time of trust in the Lord, when man would rest, confident that the Creator would provide what was needed.

property. There is no justification for keeping something one does not need if other people lack the basics of living.”<sup>40</sup>

In Deuteronomy, we read the goods of the Earth are for all, given so that all men may flourish and develop as God intended. “There must then be no poor among you. For Yahweh will grant you His blessing in the country which Yahweh your God is giving you to possess as your heritage, only if you pay careful attention to the voice of Yahweh your God, by keeping and practicing all these commandments which I am enjoining on you today. If Yahweh your God blesses you as he has promised, you will be creditors to many nations but debtors to none; you will rule over many nations, and be ruled by none.” (*Deuteronomy* 15: 4-6)

If humanity were to act rightly, to share the abundance of the land, then there would “be no poor among you.” But some people hoard, waste and partake of abundance while others starve. The equality God intended when He made man is sundered, and the world is split into classes – debtor and lender.

Deuteronomy offers a solution. “Is there anyone poor among you, one of your brothers, in any town of yours in the country which Yahweh your God is giving you? Do not harden your heart or close your hand against that poor brother of yours, but be open handed with him and lend him enough for his needs.” (*Deuteronomy* 15:7-8) Anticipating Christ’s teaching that “the poor you shall always have with you,” Deuteronomy reminds us “Of course, there will never cease to be poor people in the country, and that is why I am giving you this command: Always be open handed with your brother, and with anyone in your country, who is in need and poor.” (*Deuteronomy* 15:11)

It needs to be acknowledged that sometimes it is only by another’s efforts that an individual can properly use the gifts of God to their proper ends. At the same time, it should be remembered that it is only through the grace of God that any human accomplishes anything. The successes enjoyed are the result of gifts given to us by God, and our willingness to use those gifts.

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<sup>40</sup> *The Navarre Bible, The Pentateuch*, p. 508 (commentary)

We are told

Yahweh, your God, is bringing you into a fine country, a land of streams and springs, of waters that well up from the deep valleys and hills ..., a land where you will eat bread without stint, where you will want nothing....

[But] beware of thinking to yourself, “My own strength and the might of my own hand have given me the power to act like this.” Remember Yahweh your God; he was the one who gave you the strength to act effectively like this, thus keeping then, as today, the covenant which he swore with your ancestors. (*Deuteronomy* 8: 7,9, 17-19)

What we have we have from God, given to us though we are undeserving. Our very existence, as mentioned, comes from God. From the first instance of our lives, and even before<sup>41</sup> we are in debt to the Almighty.

As mentioned earlier, this understanding of the origin of all good things was reflected in the Jewish understanding of the jubilee year. Jubilee served to remake the world, to return land to families who needed that land, to restore the social balance and destroy the distortions created by debt. It was a wicked man who begrudged his neighbor this chance to be made whole again. God warned His people “Do not allow this mean thought in your heart, ‘The seventh year, the year of remission, is near,’ and scowl at your poor brother and give him nothing; he could appeal against you to Yahweh, and you would incur guilt!” (*Deuteronomy* 15:9)

The gifts we receive from God are given with the expectation we will use His gifts rightly, and not abuse what we have. We are in a relationship with God from the first moments of our being: Father to child, Creator to creation, and members of a great covenant. He promised “I am your God and you are My people.” Humanity is indebted to God for all He has given us, and in no position to return like-for-like. How then, can one repay this debt, and balance the books with God? Quite obviously, it can’t be done. For the very fact of their existence, all of humanity are indebted to God. What He seeks, instead of direct recompense, is right action and right thought – orthodoxy and orthopraxy.

“And now, Israel, what does Yahweh your God ask of you? Only this: to fear Yahweh your God, to follow all his ways, to love Him, to serve Yahweh your God with all your heart and with all your soul, to keep the commandments and laws of Yahweh, which I am laying down for you today for your own good.” (*Deuteronomy* 10:12-13)

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<sup>41</sup> “Before you were formed in the womb, I knew you” (Jeremiah 1:5)

This is how one can make an effort, in however small a way, to repay the benevolence of the Almighty.

When speaking of loving God, one is not speaking about loving an abstraction, or some celestial being who is distant, unknowable and unconcerned. Love is found in relationship, and love for God must be founded on a relationship with Him.

The God of the philosophers is like the Greek *anankê*, unknown and indifferent to man; He thinks, but does not speak; He is conscious of Himself, but oblivious to the world; while the God of Israel is a God who loves, a God who is known to, and concerned with, man. He not only rules the world in the majesty of His might and wisdom, but reacts intimately to the events of history. He does not judge man's deeds impassively and with aloofness; His judgment is imbued with the attitude of One to whom those actions are of the most intimate and profound concern. God does not stand outside the range of human suffering and sorrow. He is personally involved in, even stirred by, the conduct and fate of man.<sup>42</sup>

This prophetic understanding of God's relationship with His creation permeates the Old Testament. God is not distant, but here. He is not an unmoving or unmoved monolith. He loves, and He is moved by the actions of man. As the Psalmist wrote:

The eyes of Yahweh are on the upright,  
His ear turned to their cry.  
But Yahweh's face is set against those who do evil,  
To cut off the memory of them from the earth.  
They cry in anguish and Yahweh hears,  
And rescues them from all their troubles.  
Yahweh is near to the broken-hearted,  
He helps those whose spirit is crushed.  
(*Psalms* 34: 16-18)<sup>43</sup>

It is important when studying debt to keep this prophetic understanding in mind, and refrain from viewing debt merely through the lens of business or accounting. Rather, one must see others as God Himself sees them. God is "personally involved." God is "stirred" by the misfortunes of man, and not unmoved by suffering. He "hears the cry of the poor" and responds, as is seen in the Testaments, Old and New.

The prophet Nehemiah, for one, raged against the rulers who heavily taxed the people and moneylenders who charged interest which forced people into poverty.

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<sup>42</sup> Heschel, *The Prophets*, p. 289

<sup>43</sup> Other verses which are helpful in understanding God's concern for the poor include Proverbs 19:17 and Proverbs 21:13, to mention just two.

There was a great outcry from the people, and from their wives, against their brother Jews. Some said, “We are having to pledge our sons and daughters to get enough grain to eat and keep us alive.” Others said, “We are having to mortgage our fields, our vineyards and our houses to get grain because of the shortage.” Still others said, “We have had to borrow money on our fields and our vineyards to pay the royal tax; and though we belong to the same race as our brothers, and our children are as good as theirs, we shall have to sell our sons and our daughters into slavery; some of our daughters have been sold into slavery already. We can do nothing about it, since our fields and our vineyards now belong to others.”

When I heard their complaints and these words I was very angry. Having turned the matter over in my mind, I reprimanded the nobles and the officials as follows, “Each of you is imposing a burden on his brother.” Summoning a great assembly to deal with them, I said to them, “To the best of our power, we have redeemed our brother Jews who were forced to sell themselves to foreigners, and now you in turn are selling your brothers, for them to be bought back by us!” They were silent and could find nothing to say. “What you are doing”, I went on, “is wrong. Do you not want to walk in the fear of our God and escape the sneers of the nations, our enemies? I too, with my brothers and retainers, have lent them money and grain. Let us cancel these pledges. This very day return them their fields, their vineyards, their olive groves and their houses, and cancel the claim on the money, grain, new wine and olive oil, which you have lent them.”

“We shall make restitution,” they replied, “we shall claim nothing more from them; we shall do as you say.” Summoning the priests, I then made them swear to do as they had promised. (*Nehemiah 5: 1-13*)

Nehemiah, as the governor of Persian Judea, was responsible for rebuilding Jerusalem following the Babylonian Exile. At the time, the Jews were not only rebuilding their city but also their society after 70 years of exile.

These reforms instituted by Nehemiah laid the basis for reconstructing Jewish social and economic life for a period that extended right up to when the Temple was destroyed .... By showing social problems to be an obstacle to the building work, (problems not caused by the building program itself, for they were of earlier origin), the sacred text underlines how important it is not to neglect social justice or solidarity with the less-well-off on the excuse that all are engaged on a great common project. God has set His people free and every member of that people has a personal dignity which must be respected. The same holds true nowadays: our faith tells us that human dignity needs to be recognized and protected – and the distribution of wealth must take account of this.<sup>44</sup>

At the same time, Nehemiah’s story highlights the social disruptions caused by debt, and demonstrates how these disruptions interfere with the work which God gives His people. As shall be shown, the accumulation of debt in a society can act to hamper that society’s development, hindering their ability to act as God desires them to act.

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<sup>44</sup> *The Navarre Bible, Chronicles-Maccabees*, p. 259

God does not intend for us to understand and to be infused with this prophetic spirit then do nothing. It is imperative that believers spread the word to the world and deliver to them the same understanding. As *Gaudium et Spes* notes, the Church “serves as a leaven and as a kind of soul for human society as it is to be renewed in Christ and transformed into God’s family.” (*Gaudium et Spes*, 40)

God’s call goes out not to one, but to all in a society. The prophets of the Old Testament reminded the Children of Israel about this fact time and again. “Do God’s will that you may live.” In this way, one answers the question “What return can I make to Yahweh for his generosity to me?” (*Psalms* 116: 12) As the call goes out to people, as it is heard and understood, so then is society transformed. The change in each individual leads to this societal change, one person at a time. As Abraham Heschel wrote “Above all, the prophets remind us of the moral state of the people: Few are guilty, but all are responsible. If we admit that the individual is in some measure conditioned or affected by the spirit of society, an individual’s crime discloses society’s corruption. In a community not indifferent to suffering, uncompromisingly impatient with cruelty and falsehood, continually concerned for God and every man, crime would be infrequent rather than common.”<sup>45</sup>

Jesus Christ spoke to all, not as faceless members of some great mass, but one-to-one, addressing His message to each individual. As His words and His teachings are studied, it is important to remember that fact. The words of Christ are addressed to all people, as individuals in a personal relationship with The Triune God.

### **Jesus Christ on Money and Debt**

Throughout His public ministry, Jesus Christ spoke about the relationships of man with money and with God. His concern with the poor was evident from the first.

He came to Nazareth where He had been brought up, and went into the synagogue on the Sabbath day as he usually did. He stood up to read, and they handed Him the scroll of the prophet Isaiah. Unrolling the scroll he found the place where it is written:

‘The Spirit of the Lord is on me,  
For he has anointed me  
To bring the good news to the afflicted.  
He has sent me

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<sup>45</sup> *The Prophets*, p. 19

To proclaim liberty to captives,  
Sight to the blind,  
To let the oppressed go free,  
To proclaim a year of favor  
From the Lord.’  
(*Luke 4: 16-19*)

Like the prophets before Him, Jesus teaches that God is concerned with man, and is moved by man’s suffering. Jesus teaches that the things of this world are nothing compared to the Kingdom of God, and that to attain the Kingdom, one must have a right relationship with the things of this world and use them properly.

When Jesus delivers the Beatitudes, for instance, He starts by blessing “Ye that hunger now,” and He preaches woe for “You who are rich.” Luke chapter 18 tells of the rich young man who went away sad, after Jesus told him to “sell everything you own and distribute the money to the poor, and you will have treasure in Heaven; then come, follow Me.” (*Luke 18:22*) Jesus also warns His followers “it is easier for a camel to pass through the eye of a needle, than for someone rich to enter the kingdom of God.” (*Luke 18:25*)

Jesus reminds His followers they are expected to be generous, as their Heavenly Father was generous to them. In the Old Testament, the people of Israel were enjoined to treat their fellow Jews with generosity. In the New, Jesus teaches this generosity must extend to all, even those who would oppose and oppress us. “If anyone requires you to go one mile, go two miles with him. Give to anyone who asks of you, and if anyone wants to borrow, do not turn away.” (*Matthew 5:41-42*) In this way, we act like God, who “causes the Sun to rise on the bad as well as the good, and sends down rain to fall on the upright and the wicked alike.” (*Matthew 5:45*)

Jesus doesn’t teach that possessing or enjoying riches is evil. The rich are not inherently wicked, nor are the poor inherently noble. Rather, Christ wants man to understand the will of His Father, and to use their riches to alleviate the suffering of the poor. To restore them, to make them whole, to return their dignity as well as to feed their hunger. Jesus asks that we use our wealth to heal the wounds brought about by poverty and to make society whole.

It is not just the rich called to restore the social bonds severed by inequality and debt. But to the rich, and indeed, to anyone gifted by God, whether those gifts be material or other, a special responsibility is given. As generous as God has been, so we are called to be generous to others.

“Then the King will say to those on His right hand, “Come, you whom My Father has blessed, take as your inheritance the kingdom prepared for you since the foundation of the world. For I was hungry and you gave me food, I was thirsty and you gave me drink....” (*Matthew* 25:34-35) In reply to the question, “When did we do these things,” The Lord will tell the just “In truth, I tell you, in so far as you did this to one of the least of these brothers of mine, you did it to me.” (*Matthew* 25: 40)

But what does it mean to be just? A just man is one who does the will of God. And what is the will of God? Jesus says the two greatest commandments are to love God with your whole heart and soul, and your neighbour as yourself. Jesus also teaches us to obey The Golden Rule and do unto others as we would have them do to us.

God would have us act this way to help heal a sinful world. One does not give to the poor and needy from their storehouses, but from the gifts given by the Almighty. The goods of the world come to us from God and are meant to pass through our hands to those who need them most.

Debt is an unnatural thing. And though Jesus warned “The poor you shall always have with you,” was that Him throwing His hands up in frustration at the inevitability of poverty, or His chiding men for their inability and unwillingness to properly use the things of this world?

We see in the Bible that great things can happen when the people of God strive to use their gifts as He intended them to be used. After Pentecost, as we read in the Acts of the Apostles, the members of the early Church “[R]emained faithful to the teaching of the apostles, to the brotherhood, to the breaking of bread and to the prayers. And everyone was filled with awe; the apostles worked many signs and miracles. And all who shared the faith owned everything in common; they sold their goods and possessions and distributed the proceeds among themselves according to what each one needed.”<sup>46</sup> (*Acts* 2:42-45)

Later in Acts, we read of followers “filled with the Holy Spirit.”

The whole group of believers was united, heart and soul; no one claimed private ownership of any possessions, as everything they owned was held in common. The apostles continued to testify to the resurrection of the Lord Jesus with great power, and they were all accorded great

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<sup>46</sup> To avoid any confusion, let it be pointed out the Apostles and their followers made the decision of their own free will to live in this manner. It is wrong to think, because the early Church members choose this lifestyle, that compelling others to divest themselves of their property for the common good is a laudable decision. You cannot compel someone to be generous.



respect. None of their members was ever in want, as all those who owned land or houses would sell them, and bring the money from the sale of them, to present it to the apostles; it was then distributed to any who might be in need. (*Acts* 4: 31-34)<sup>47</sup>

To be rich is not a sin. But to be rich and ignore the cry of the poor is sinful. To be rich, and to love those riches more than you love God, is what the teaching of the Church condemns. This teaching runs counter to the spirit of the modern world. To most, it is the rich man who deserves praise, while the poor man is ignored and sent away. But the Apostles warned against this very behavior as being counter to the teaching of Jesus.

My brothers, do not let class distinctions enter into your faith in Jesus Christ, our glorified Lord. Now suppose a man comes into your synagogue, well-dressed and with a gold ring on, and at the same time a poor man comes in, in shabby clothes, and you take notice of the well-dressed man, and say, “Come this way to the best seats,” then you tell the poor man, “Stand over there,” or “You can sit on the floor by my foot-rest.” In making this distinction among yourselves have you not used a corrupt standard? Listen, my dear brothers: it was those who were poor according to the world that God chose, to be rich in faith and to be the heirs to the kingdom which he promised to those who love him. (*James* 2:1-5)

### **Lessons From the Church Fathers**

The Fathers of the Church, drawing on the teaching of Christ and the example of the early Church, taught that the rich are obliged, as children of God, to aid the poor. They are to give, not to lend, from their abundance, to offer freely the things given from God for the benefit of their fellowman.

St. Clement of Alexandria, for example, penned a treatise entitled “What Rich Man May be Saved?” In that work, he wrote that some who were rich

... not understanding the sayings of Christ, that it is easier for a camel to pass through the eye of a needle than for a rich man to enter the Kingdom of Heaven, despair of salvation and give themselves wholly to the pleasures of the world. This is a great mistake. When Christ, in the Gospel, tells the rich young man “if thou wilt be perfect, go sell thy possessions,” He does not, as some lightly think, bid him throw away all that he owned. He rather bids him to banish from his soul the absorbing fondness and anxiety for wealth, through which true spiritual life is stifled. Poverty of itself does not save, for a man may be poor and still be slave to passions; he may be greedy of wealth, though not having it in hand.<sup>48</sup>

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<sup>47</sup> Compare these two passages from Acts with Deuteronomy 15:4, God’s promise there will be no poor if His laws are obeyed. The Apostles and the early Church were able to apply this teaching in the real world to produce great effects.

<sup>48</sup>Aiken, *The Doctrine of the Fathers of the Church on the Right of Private Property*

St. Cyril of Jerusalem wrote “A man may even be justified by money. “I was hungry and you gave me food”: that certainly was from money. “I was naked and you clothed me,”: that certainly was from money .... Now, I’ve made these remarks because of those heretics who say that our possession and our money, and our bodies are cursed. I don’t want you to be a slave to money, but neither do I want you to treat as enemies the things God has given you to be used.”<sup>49</sup>

St. John Chrysostom put the situation in very clear terms when he taught “Not to enable the poor to share in our goods is to steal from them and deprive them of their life. The goods we possess are not ours but theirs.”

St. Gregory the Great taught “When we attend to the needs of others, those in want, we give them what is theirs, not ours. More than performing works of mercy, we are paying a debt of justice.” (*Catechism of the Catholic Church*, 2446)

Given these lessons – that all comes from God, and that as we deal with others, we shall be dealt with by Him, the Catholic understanding of debt becomes clearer. Ideally, when one is approached for a loan, the lender will become a giver, which enables the supplicant to become the receiver of a gift instead of a handout. The man who gave becomes a conduit through which God delivers His benevolence to another.

### **Aquinas on Debt**

The understanding that all things come from God, and of the Universal Destination of Goods<sup>50</sup> and our obligations to the needy among us are all reflected in the teachings of St. Thomas Aquinas. He understood that the proper end of economic activity was not merely the accumulation of wealth but rather using that wealth in a manner which benefits one’s own salvation.

When Thomas says “one cannot over bound in external riches, without another man lacking,” we are tempted to read it as a mere pious assertion to share the riches. But it is firmly rooted in Thomas’ assumptions about how God provides for human beings through the fruitfulness of nature. The common telos of certain of nature’s goods is to meet the needs of human sustenance, and so they ought to find their way to those who lack.”<sup>51</sup>

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<sup>49</sup> St. Cyril of Jerusalem, Catechetical Lecture 8, 6-7

<sup>50</sup> Informed by ideas of stewardship and solidarity, the Church teaches there is a Universal Destination of Goods. “In making use of the exterior things we lawfully possess, we ought to regard them not just as our own but also as common, in the sense that they can profit not only their owners but others too.” (*Gaudium et Spes*, 69)

<sup>51</sup> Franks, *He Became Poor*, p. 76-7

As he wrote “it is impossible for happiness, which is the last end of man, to consist in wealth.”<sup>52</sup>

This view of Aquinas’ seems very much out of step with the modern view of economic activity. This doesn’t mean, however, that a market economy, to take one example, is inherently evil. The flaw comes, not from the market, but when those operating within the economic system act sinfully.

It is true of free markets that those who participate are driven by self-interest, but not necessarily by selfish interests. At the same time, it must be acknowledged that some of those who participate in the market, whether buying, selling, bartering or trading, might be driven by greed, by avarice and by fear. The drive for acquisition and profit has become the *raison d’etre* for much of economic activity, especially in the financial markets and among speculators. But it does not have to be this way, and it should not be this way. “When Mammon rules, we develop expectations that are false.”<sup>53</sup>

What is taught by the Church enables mankind to forsake the rule of Mammon for the rule of God. In fact, Jesus reminds us in the Sermon on the Mount that “No man can serve two masters. For either he will hate the one and love the other; or he will sustain the one and despise the other. You Cannot serve God and mammon.” (*Matthew 6:24*)

To seek the Kingdom of God, it is not necessary to relinquish the things of this world. Rather, it is to use the things of this world in a right manner, guided by justice, mercy and love.

To be assured of this point, one need only consider that the involuntary poor may be so destitute that their potential for virtuous acts is crippled. To desire what is necessary for virtue is no sin.

It may seem that the theological virtues qualify the requirement that life be sustained for the exercise of virtue, since they direct us to an end beyond this life. But it is this life that affords the crucial responsibility of advancing toward that end. Thus, our very ordering even to a supernatural end requires that life be sustained.<sup>54</sup>

It is a sin against our fellow man when we allow them, through our action or inaction, to remain poor, to be without the things they need to develop, whether individually or as a nation. Contrariwise, we act as God would have us act and, indeed, we act as God has acted when we are

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<sup>52</sup> Aquinas STh, I-II, q. 2, a.1

<sup>53</sup> Welby, *Dethroning Mammon: Making Money Serve Grace*, p. 21

<sup>54</sup> Franks, *He Became Poor*, p. 169

generous,<sup>55</sup> when we take the things God has put into our hands and let them pass through our hands to others.

The Church praises poverty, but, as Aquinas points out, that poverty is voluntary. In *Summa Theologica*

Thomas addresses an objection that had long been leveled against the mendicants: by giving away all, do they not expose themselves to the dangers or temptations that the Book of Proverbs suggests accompany the state of poverty? Thomas replies that the corporeal dangers are negated by trust in Divine Providence, and that the spiritual dangers follow from poverty only when it's involuntary, because those who are unwillingly poor, through the desire of money-getting, fall into many sins.<sup>56</sup>

It follows, then, that there is a Christian duty to draw others from this involuntary poverty which breaks the spirit and saps the strength of man. The rich have an obligation to the poor, and rich nations a similar obligation to poor nations.

Regarding property, Aquinas argues “that private property is legitimate, and not solely as a concession to fallen human nature.” In this, he contradicts those theologians who “view the institution of private property with suspicion. In doing so, they simply pick up an ancient Christian tradition that likewise views private property with suspicion, though that tradition at least grants private property some standing as a concession to sin.”<sup>57</sup>

When it comes to debt, Aquinas was chiefly concerned with the question of usury. “For Aquinas, usury is chiefly a sin against justice, justice being that virtue whereby one consistently will to render the other her due.”<sup>58</sup> Aquinas also saw usury as a “sin against commutative justice,” and as a “cousin to theft.” However, “no one wills a theft, but usury takes place within exchanges that are voluntary, or at least superficially so. The injured party consents under compulsion: she wills the loan in spite of the usury, much as one would part with a finger to save a hand.”<sup>59</sup>

The Church’s understanding of usury draws on teaching found in the Pentateuch. Exodus teaches “If you lend money to any of my people, to anyone poor among you, you will not play the usurer with him: you will not demand interest from him.” (*Exodus* 22:24) In Leviticus, we

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<sup>55</sup> Here we can replace the word “generous” with “just” and still be correct.

<sup>56</sup> *He Became Poor*, p.168-9

<sup>57</sup> Hitschfield, *Aquinas and the Market: Toward a Humane Economy*, p. 161

<sup>58</sup> Buchmann, “A Time for Reconsidering the Catholic Prohibition of Usury”

<sup>59</sup> *Ibid*. The idea of usury as it pertains to government debt will be addressed in greater detail in the appendix.

read “If your brother becomes impoverished, and cannot support himself in your community, you will assist him as you would a stranger or a guest. Do not charge him interest on a loan, and let your brother live with you. You will not lend him money on interest, or give him food to make a profit from it.” (*Leviticus 25:35-37*) In Deuteronomy, God teaches “You must not lend on interest to your brother, whether the loan be of money, of food, or of anything else that may earn interest.” (*Deuteronomy 23:20*)<sup>60</sup>

The idea of usury pertains to more than the charging of interest or exorbitant interest. However, in the popular imagination, the Church’s teaching on usury has been conflated with a ban on interest in any case whatsoever. Aquinas wrote “To take usury for money lent is unjust in itself, because this is to sell what does not exist, and this evidently leads to inequality, which is contrary to justice.”<sup>61</sup> Aquinas’ teaching, which was promulgated in the 13<sup>th</sup> century, reflected the nature of money at the time and place it was given. Money was used as a means of exchange and a store of wealth, just like today. Unlike contemporary times, however, money was rarely used as an investment tool. It was seen as static and barren. A pile of gold, in and of itself, did nothing. Therefore, to charge twice for the use of an unfruitful object, as money was seen to be, was judged as usurious by Aquinas. We see that Aquinas understood money, in and of itself, as a barren thing. A gold coin buried in the ground is of no use to anyone.

But he also understood that a lender may sometimes suffer loss from lending money. In such a case, Aquinas wrote, “a lender may without sin enter an agreement with the borrower for compensation for the loss he incurs of something he ought to have, for this is not to sell the use of money but to avoid a loss.”<sup>62</sup>

A similar strain of thinking can be found in the encyclical *Vix Pervenit*, which was promulgated in 1745 by Pope Benedict XIV. He wrote

The nature of the sin called usury has its proper place and origin in a loan contract. This financial contract between consenting parties demands, by its very nature, that one return to another only as much as he has received. The sin rests on the fact that sometimes the creditor desires more than he has given. Therefore, he contends some gain is owed to him beyond that which he is loaned, but any gain which exceeds the amount he gives is illicit and usurious. (*Vix Pervenit*, 3, I)

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<sup>60</sup> Other examples of the prohibition on lending at interest include Psalms 15, Proverbs 28:8 and Nehemiah 5, among others

<sup>61</sup>STh, II-II, Q. 78 a. 1

<sup>62</sup>Aquinas, STh, II-II, Q. 78, a. 2

He added “By these remarks, however, we do not deny that at times, together with the loan contract, certain other titles – which are not intrinsic to the contract – may run parallel with it. From these other titles, entirely just and legitimate reasons arise to demand something over and above the amount due on the contract.” (*Vix Pervenit*, 3, III)

Heinrich Pesch wrote there are several titles to interest, which include a premium for risk. Money handed to a borrower may, if said borrower becomes insolvent, be lost to the lender. “Danger reduces the value of the endangered article. Accordingly, the premium for risk takes on the character of compensation, of a *usura compensatoria*, which was fully recognized by the canonists, at the same time as the *usura lucratoria* from the loan as such was generally condemned.”<sup>63</sup> Pesch also recognized replacement of interest and interest on arrears or a penalty for non-fulfillment of the loan as titles to interest.

“The essence of the Peschian position is that the modern interest rate is the “price, equivalent, for a worth-while service, i.e., for the possibility of gaining a profit with which considerable generality is offered through the loan of a sum of money,” Jesuit economist Rev. Richard Mulcahy wrote.<sup>64</sup>

“Although banking and insurance services trade in cash flows, the financial instruments they produce are ordered to genuine human goods,” Mary L. Hirschfield wrote in *Aquinas and the Market*. She continued

For example, financial instruments allow people to live in their own homes decades before they would be able to afford them; they allow workers to essentially trade present earnings to current retirees for a claim on future workers to support them in their retirement, and they allow a multitude of households to combine resources to finance great projects that are beyond the scope of any single individual. *These are real services, and the individuals involved in developing and offering the instruments that make such transactions possible deserve recompense for their efforts.* (italics added) It takes skill to discern which households can handle a mortgage, which economic ventures are deserving of funding, and so on. Aquinas condemns the taking of interest on a loan of money (usury) on the grounds that in such transactions the lender receives payment without having rendered any good in return. Insofar as most interest serves as compensation for expected inflation, risk, and the effort expended in originating and servicing a loan or an insurance contract, the Thomistic framework can accommodate such activities.<sup>65</sup>

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<sup>63</sup>Pesch, *Heinrich Pesch on Solidarist Economics*, p. 279

<sup>64</sup>Mulcahy, *The Economics of Heinrich Pesch*, p.151-2

<sup>65</sup>Hirschfield, *Aquinas and the Market: Toward a Humane Economy*, p. 136

It is important to remember that a request for interest must arise from legitimate motives on the part of the lender. If a lender requests interest, claiming it for a legitimate reason, but in his heart desires only additional profit from a transaction, it is an illegitimate request. “It is axiomatic in scholastic theory that the intention to perform a sinful act, even though not executed, is a sin in itself. That mental usury was a sin, and that “hope makes the usurer,” were common doctrines taught by everyone.”<sup>66</sup>

Usury, as understood by the Church, includes more than improper interest from loans. As Pesch wrote:

Usury is not exclusively a monetary phenomenon having to do with money lending. A disparity between what is offered and what is given in return, resulting in excessive gain, can arise anywhere in the exchange process, and especially in business transactions. Usury in a business transaction is the contractual appropriation of obvious surplus value in the process of buying and selling. The damage is done by the contract itself where performance and remuneration are juxtaposed.<sup>67</sup>

Most loans to the world’s governments come from the private sector, whether it be a bank, investment firm, or from individual citizens. It would seem, then, that given the Church’s understanding of usury *vis a vis* business transaction, it is legitimate to structure loans to sovereigns in such a manner that interest can legitimately be obtained. Governments seeking loans to build infrastructure, to improve the living standards of their citizens, or for the long-term continuation of a legitimate government, could be asked to pay some form on interest, so long as the lenders have title to said interest and charge a reasonable rate, based on the market at the time of the loan.

The situation is different, of course, when a nation seeks a loan in extraordinary circumstances, such as to fight a just war or following natural disaster. In such cases, where a nation needs money to buy food to feed its populace, for example, it would be in line with the teaching of the Church to offer an interest-free loan, or to turn the loan into a gift.

In the case of international bodies, such as the International Monetary Fund or the World Bank, who often loan money to governments shut out from the international financial markets, it seems unobjectionable for interest to be charged in an effort to enforce repayment discipline.

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<sup>66</sup>Noonan, *The Scholastic Analysis of Usury*, p. 32

<sup>67</sup>Pesch, *Ethics and the National Economy*, p. 85-6

Also, the charging of interest definitively shows the loan is just that, a loan, and not a gift, and it is expected to be properly used and promptly repaid.

Aquinas did allow for the creation of partnerships for the investment of capital. He wrote “He who lends money transfers the ownership of the money to the borrower. Hence the borrower holds the money at his own risk and is bound to pay it all back: wherefore the lender must not exact more. On the other hand he that entrusts his money to a merchant or craftsman so as to form a kind of society, does not transfer the ownership of his money to them, for it remains his, so that at his risk the merchant speculates with it, or the craftsman uses it for his craft, and consequently he may lawfully demand as something belonging to him, part of the profits derived from his money.”<sup>68</sup>

This is not to say that Aquinas thought a lender should get no recompense for giving a loan. He wrote “A lender may without sin enter an agreement with the borrower for compensation for the loss he incurs of something he ought to have, for this is not to sell the use of money but to avoid a loss.”<sup>69</sup> Likewise, he wrote “it is lawful to exact compensation for a loan, in respect of such things as are not appreciated by a measure of money, for instance, benevolence, and love for the lender, and so forth.”<sup>70</sup>

These compensations, such as benevolence and love, speak to Aquinas’ thoughts on charity. As mentioned above, when discussing poverty, Aquinas pointed out that the involuntary poor had many opportunities to fall into sin. When he speaks of charity, he reflects that the act of giving speaks to an individual’s relationship with God and with one’s fellow humans. When responding to the question of whether charity is friendship, Aquinas answers that it not only reflects friendship with one’s fellows, but also with God. The act of charity, then, creates a bond of friendship between the giver and the one receiving. As he wrote “The friendship that is based on the virtuous is directed to none but a virtuous man as the principal person, but for his sake we love those who belong to him, even though they be not virtuous: in this way charity, which above all is friendship based on the virtuous, extends to sinners, whom, out of charity, we love for God’s sake.”<sup>71</sup>

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<sup>68</sup> Aquinas, STh, II-II, q. 78, a. 2

<sup>69</sup> Ibid

<sup>70</sup> Ibid

<sup>71</sup> Aquinas, STh, II-II, q. 23, a. 1



Similar to the manner in which debt changes the relationship between borrower and lender, charity alters the relationship between the one who gives and the one who receives. In the former case, the relationship changes into one which reflects the power of the borrower over the lender, while the latter case serves to unify the two parties under a bond of friendship.

St. John XXIII took up this call when he wrote in *Mater et Magistra*

Probably the most difficult problem today concerns the relationship between political communities that are economically advanced and those in the process of development. Whereas the standard of living is high in the former, the latter are subject to extreme poverty. The solidarity which binds all men together as members of a common family makes it impossible for wealthy nations to look with indifference upon the hunger, misery and poverty of other nations whose citizens are unable to enjoy elementary human rights. The nations of the world are becoming more and more dependent on one another and it will not be possible to preserve a lasting peace so long as glaring economic and social imbalances persist.

Mindful of Our position as the father of all peoples, We feel constrained to repeat here what We said on another occasion: “We are all equally responsible for the undernourished peoples. [Hence], it is necessary to educate one’s conscience to the sense of responsibility which weighs upon each and every one, especially upon those who are more blessed with this world’s goods. (*Mater et Magistra* 157-58)

When the world is viewed through this lens, when creation is seen through the eyes of God and reflects on the words of Aquinas and John XXIII and the Fathers of the Church, it is the beginning of an understanding of what debt is and how it can distort the relationship between man and man and between nation and nation.

### **Debt is a Tool**

The above analysis of poverty, riches and debt must be taken in the context of the times in which it was promulgated. In the ensuing years, the role and operations of governments has changed, as has the nature of money itself.

In contemporary times, governments may borrow internally or externally, and the burden of that debt may become problematic for generations yet to be born. As will be shown, the ideas driving government borrowing and repayments have shifted over the last half century, leading to the accumulation of sovereign debt levels hitherto unseen.

However, this is not to say that the lessons of the past have no relevance to the questions and concerns surrounding government debt. Rather, it is to say that those earlier insights will need to be applied to the contemporary circumstances. Truths revealed in the past remain true,

but how they are applied to contemporary problems will differ from how they were used by those in the past.

Like any tool, government debt is neither good nor bad. Rather, it is the uses to which the debt is put and the manner in which it is used which determines when debt is benign and when it is not. A government which borrows to wage war and which, after the end of hostilities, works diligently to pay back what it borrowed, is one example of the proper use of debt. Similarly, a government which needs to borrow to offer relief to its citizens after an earthquake is similarly acting properly, so long as the debt is paid in full. But too much debt, or too much reliance on debt financing, can be a detriment to government and society. A government which borrows too readily, and which is unprepared to repay what it owes will leave itself little room to maneuver when a crisis comes.

The act of borrowing or lending is a personal act, whether one borrows from a friend or a bank, or acts in the capacity of a government official to borrow from banks and investors. As such, this human action can have moral implications and be judged as proper or improper. This is especially true in the case of government debt, since the contracting party is creating an obligation on behalf of others. A politician or government official who transacts to raise money through debt must be aware that the action will affect the citizenry of the nation. True, numerous government debt transactions are carried out smoothly and repaid promptly. But, as mentioned, the accumulation of excessive debt, and the inability or unwillingness to repay it, has been the cause of much misery in the past.

The issue of government debt is one of the great problems of our time and is only now beginning to garner the attention it deserves. Great empires have fallen as a result of indebtedness. Human suffering has increased, and the development of people has been hampered by such problems. To act as God would have us act, and as the Church teaches, entails ensuring solutions to the problem are humane, just, and feasible.

The Church's understanding of debt draws on millennia of wisdom and teaching. From the time of the prophets to the present day, the Church has seen and interacted with all manner of human government. Its institutional memory is long. That memory serves to relay its teachings to each new generation. But, as mentioned, though the truths taught by the Church are eternal, the expression of those truths takes various forms, determined by the time, place and circumstances in which they are expressed.

So it is with government debt and the proper functioning of government. The truth that the rich should put their goods at the service of the poor remains. How that truth is lived is dictated by times and circumstances. Therefore, when one draws upon the Church's teachings to examine the role of government debt, one need not be straitjacketed by past practices. One can learn from the past and emulate the actions of those who came before if deemed proper. But one must also realize a time could come to exercise judgment and articulate those truths in a new manner.

The most visible actions taken by the Church in regards to government debt have been the efforts to promote debt relief and debt forgiveness for the world's poorest nations. But this is not and should not be the extent of her efforts to guide the nations and people of the world toward a better understanding of the proper uses of government debt.

The use of government debt should be guided by the principles taught by the church, especially those laid out in the body of thought known as Catholic Social Teaching. In *Perum Novarum*, Leo XIII wrote that the foremost duty of the state "should be to make sure that the laws and institutions, the general character and administration of the commonwealth, shall be such as of themselves to realize public well-being and private prosperity." (*Perum Novarum*, 32) A question, then, which should be asked prior to any debt transaction should be whether said debt can reasonably be seen as improving those conditions. At the same time, consideration must be given to the future, and whether the debt can be repaid in a timely and proper manner so as not to be a burden to future generations.

In *Quadregesimo Anno*, Pius XI reiterated the Church's belief that while governments must protect the rights of all individuals, "chief consideration ought to be given to the weak and the poor." (*Quadregesimo Anno*, 25) This teaching is in line with the later emphasis on government debt relief which the Church espoused for the world's poorest nations.

*Populorum Progressio* sees Paul VI asking for dialogue between borrowers and lenders, in an effort to keep developing countries from being overwhelmed by debts :whose repayment swallows up the greater part of their gains." (*Populorum Progressio*, 54)<sup>72</sup>

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<sup>72</sup> That message of cooperation was also promulgated by many others, including John XXIII who wrote in *Pacem in Terris* "The demands of the common good on the international level include: the avoidance of all forms of unfair competition between the economies of different countries; the fostering of mutual collaboration and good will; and effective co0operation in the development of less economically advanced countries." (*Pacem in Terris*, 80)

When the world's poorest nations experienced their debt crises in the latter part of the 20<sup>th</sup> century, the Church was quick to take up the call for debt relief and forgiveness, guided by the principals taught in earlier times. In 2011, when the U.S. Conference of Catholic Bishops issued their statement "*What Does the Church Say about Debt and Jubilee*," they wrote "principles and themes from Catholic social teaching make a compelling case for debt relief for the world's poorest countries."

As mentioned above, John Paul II spoke extensively about the idea of Jubilee, delivering a message of debt relief which encouraged the world to see debt as more than an economic issue. In 1999, he wrote "the law of profit alone cannot be applied to that which is essential for the fight against hunger, disease and poverty."<sup>73</sup>

John Paul II and others at the time emphasized the people of the world had a responsibility to those in need and want. In the encyclical *Tertio Millennio Adveniente*, he wrote "Christians will have to raise their voices on behalf of all the poor, proposing the Jubilee as an appropriate time to give thought, among other things, to reducing substantially, if not cancelling outright, the international debt which seriously threatens the future of many nations." (*Tertio Millennio Adveniente*, 51)

In the apostolic exhortation *Ecclesia in America*, which was released in 1999, John Paul II wrote "The existence of a foreign debt which is suffocating quite a few countries of the American continent represents a complex problem. While not entering into its many aspects, the Church in her pastoral concern cannot ignore this difficult situation, since it touches the life of so many people." (*Ecclesia in America*, 59)

The emphasis on the plight of the poorest and the desire to alleviate their suffering is admirable and altogether in line with the teaching of the Catholic Church. However, it must be understood that the teaching of the Church applies to more than just the end results or unintended consequences from the accumulation of debt. Rather, the entire cycle of a debt transaction, from its initial creation to its final repayment, should be viewed and analyzed. It is just as necessary to apply the teaching of the Church to the procurement of debt as it is to the procurement of the debt as it is to use those teachings to analyze and act when excess debt causes suffering.

The Church has been vocal about the responsibilities of politicians, bankers and other parties when, through the accumulation of too much debt, a nation and its people suffer. But the

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<sup>73</sup> *Message of the Holy Father to the Group 'Jubilee 2000 Debt Campaign,'* Sept. 23, 1999

lessons of the Church should also be applied to the creation of debt, in line with her understanding of the responsibilities of politicians, the purpose of government and the right functioning of the economy. Humanity's responsibilities to the most poor and vulnerable, ideas of solidarity and subsidiarity,, the universal destination of goods, all this and more can be used to craft a right understanding of government debt and how it should be treated and used.

It is right that the Church concerned itself with the plight of the poorest. However, it is not just the world's poorest countries procuring high levels of government debt. Therefore, the lessons about debt must be applied to the world's richest nations as well, to ensure they are raising debt in a just, right and sustainable manner. There has been less written about this aspect of the debt question, though much can be gleaned from the lessons taught by the Catholic Church.

Little consideration was given to the debt of the world's more developed nations in earlier years. This has changed, especially in light of the 21<sup>st</sup> century's myriad financial crises, which include the Financial Crisis of 2008 and the subsequent recession, the problems which have arisen in the face of the Covid-19 pandemic and recent financial disruption as inflation rises and supply chain issues continue to plague the world's economy. While some attention has been paid to the debt of more developed countries, few have addressed how these problems should be approached, especially in light of the teaching of the Church.

The insights and resources which have been developed by the Church to confront the issues of developing country debt are powerful tools. In later chapters, this paper will use those tools to further develop Catholic thought regarding government debt.

## **Chapter Two**

### **The Role of Government**

Government is a necessity for the proper development and flourishing of mankind. However, it must be remembered that government is not some monolithic entity existing apart from the will of man. The decisions of a government are made by humans, by politicians, political appointees, and government workers. When speaking of government and its actions, one is discussing the actions of individuals. Thus, arguments aimed at changing the course of a government's actions are addressed to people, to individuals, rather than to an institution, office, or faceless force.

### **Catholic Teaching on Government and the Church**

The Catholic Church teaches that Government is a natural, pre-Fall good. Man is a social creature, called by human nature to live with and in communion with others. The Catechism teaches that society

...is a group of persons bound together organically by a principle of unity that goes beyond each one of them. As an assembly that is at once visible and spiritual, a society endures through time: it gathers up the past and prepares for the future. By means of society, each man is established as an "heir" and receives certain "talents" that enrich his identity and whose fruit he needs to develop. He rightly owes loyalty to the communities of which he is part and respect to those in authority who have charge of the common good. (*Catechism of the Catholic Church*, 1880)

We are also taught "Certain societies, such as the family and the state, correspond more directly to the nature of man; they are necessary to him." (*Catechism of the Catholic Church*, 1882)

In the Old Testament, we read in Wisdom "Sovereignty is given to you by the Lord and power by the Most High, who will himself probe your acts and scrutinize your intentions." (*Wisdom* 6:3)<sup>74</sup>

Scripture also teaches those who are put in places of power have obligations as well as privileges. "If therefore, as servants of His kingdom, you have not ruled justly nor observed the

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<sup>74</sup> Other examples of Old Testament teachings on government include Proverbs 8:15-16, which reads "By Me monarchs rule and princes decree what is right; by me rulers govern, so do nobles, the lawful authorities."

law, nor followed the will of God, he will fall on you swiftly and terribly. On the highly placed a ruthless judgment falls; the lowly are pardoned, out of pity, but the mighty will be mightily tormented.” (*Wisdom* 6:3-6)

One of the few episodes recorded in all three Synoptic Gospels deals with Christ’s answer as to whether it is lawful for the Jewish people to pay taxes to Rome.<sup>75</sup>

In an effort to trap Jesus, the Pharisees and Herodians sent questioners to Jesus, who asked Him whether it was right to pay the tax demanded by Rome. Jesus took a coin, pointed to the image of Caesar upon it, and told his questioners to “render unto Caesar those things that are Caesar’s, and render unto God those things that are God’s.”

With His answer, Jesus put into perspective the responsibility of the citizen to the government. His answer, tying the duties owed to God with those owed to government, demonstrates that just as all owe obedience to God, so they owe obedience to legitimate authority here on Earth. Instead of condemning earthly authority, Jesus affirmed that those living under legitimate political authority on Earth have certain duties and obligations to that authority.

Jesus responds with a riddle that plays on the word ‘likeness.’ Because Caesar’s likeness is stamped on the coin for the tax, it should be given back to him as his rightful property. God’s image and likeness, however, is stamped into every living person, including Caesar. (*Gen.* 1:27) Even more important than civil responsibilities is the obligation everyone, including Caesar, has to give himself back to God.<sup>76</sup>

In the end, “Jesus affirms the propriety of fulfilling civil duties while emphasizing our primary duty of serving God.”<sup>77</sup> He is “able to rise above the controversy over taxation by stressing this higher duty incumbent upon all.”<sup>78</sup>

At the same time, His answer also serves to separate the spheres of Church and State. Each has its own duties, obligations and rights. Just as the State cannot intrude upon the rights of the Church, so the Church cannot rightly interfere with the legitimate functions of government, so long as they are conducted in a right and proper manner.

By universalizing the Jewish belief that those exercising legal authority were as subject to Yahweh’s law as everyone else, Christianity achieved the hitherto unthinkable, the de-sacralization of the polis and the Roman state. From Scripture, we know that early Christianity was respectful of the Roman state’s authority. Both St. Paul and St. Peter underlined the divine

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<sup>75</sup> See Matthew 22: 15-22, Mark 12:13-17 and Luke 20:20-26

<sup>76</sup> Hahn and Mitch, *Ignatius Catholic Study Bible, New Testament*, p. 88 (footnotes)

<sup>77</sup> Ibid, p. 46 (footnotes)

<sup>78</sup> Ibid, p. 88 (footnotes)

origin of the state's legal authority. Nevertheless, Christianity also quietly insisted that Caesar was not a god and might not behave as if he was God. Though Christians would pray for earthly rulers, it was anathema for Christians to pray to such rulers. While Christians regarded the state as the custodian of social order, they did not consider the state itself to be the source of truth and law.<sup>79</sup>

#### The Church teaches

The Church and the political community in their own fields are autonomous and independent from each other. Yet both, under different titles, are devoted to the personal and social vocation of the same men. The more that both foster sounder cooperation between themselves with due consideration for the circumstances of time and place, the more effective will their service be exercised for the good of all. (*Gaudium et Spes*, 76)

#### At the same time, it must be remembered

While the hierarchy has the role of teaching and authoritatively interpreting the moral laws and precepts that apply in this matter, the laity have the duty of using their own initiative and taking action in this area—without waiting passively for directives and precepts from others. They must try to infuse a Christian spirit into people's mental outlook and daily behavior, into the laws and structures of the civil community. Changes must be made; present conditions must be improved. And the transformations must be permeated with the spirit of the Gospel. (*Populorum Progressio*, 78)

Government is a good, and as such must be supported by the citizenry. St. Paul writes in Romans

Let every person be subject to the governing authorities. For there is no authority except from God, and those that exist have been instituted by God. Therefore, he who resists the authorities resists what God has appointed, and those who resist will incur judgment. For rulers are not a terror to good conduct, but to bad. Would you have no fear of him who is in authority? Then do what is good, and you will receive his approval, for he is God's servant for your good. But if you do wrong, be afraid, for he does not bear the sword in vain; he is the servant of God to execute his wrath on the wrongdoer. Therefore one must be subject, not only to avoid God's wrath but also for the sake of conscience. (*Romans*, 13:1-5)

St. Paul also wrote "I urge that supplications, prayers, intercessions and thanksgivings be made for all men, for kings and all those who are in high positions, that we may lead a quiet and peaceable life, godly and respectful in every way. This is good and is acceptable in the sight of God our savior.... (*1 Timothy* 2:1-3)

St. Peter taught "Be subject for the Lord's sake to every human institution, whether it be to the emperor as supreme, or to governors as sent by him to punish those who do wrong and to praise those who do right." (*1 Peter* 2:13-15)

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<sup>79</sup> Gregg, 'Catholicism and the Case for Limited Government,' p. 468-9



In his work *On Kingship*, written for the king of Cyprus, Aquinas wrote

Man is by nature a political and social animal. Even more than other animals he lives in groups (multitudine). This is demonstrated by the requirements of his nature. Nature has given other animals food, furry covering, teeth and horns and claws – or at least speed of flight – as a means to defend themselves. Man, however, is given none of these by nature. Instead, he has been given the use of his reason to secure all these things by the work of his hands. But a man cannot secure all these by himself because a man cannot adequately provide for his life by himself. Therefore, it is natural for man to live in association with his fellows.

He concludes

Therefore, if it is natural for men to live in association with others, there must be some way for them to be governed. For if many men were to live together and each to provide what is convenient for himself, the group (multitudo) would break up unless one of them had the responsibility for the good of the group, just as the body of a man or an animal would disintegrate without a single controlling force in the body that aimed at the common good of all members. As Solomon said, “Where there is no ruler, the people will be dispersed.”<sup>80</sup>

John XXIII wrote “Human society can never be well-ordered nor prosperous without the presence of those who, invested with legal authority, preserve its institutions and do all that is necessary to sponsor actively the interests of all its members. And they derive their authority from God, for as St. Paul teaches, “there is no power but from God.” (*Pacem in Terris*, 46)

The proper place for a human to live is within a society, one governed by law and structured in a manner to allow its members to live as God intended. Like all human institutions, the ultimate purpose of government should be to assist humanity in achieving its ultimate purpose, which is eternal union with God in Heaven. How this comes about is personal for each of us, but that personal act takes place within the context of society.

To create the conditions in which humans can truly thrive, a society and its government need to promote and preserve the Common Good. How this is done will vary according to circumstances of time and place. However, no matter where or when, it is the promotion of the Common Good which remains the goal for which any government should strive. What the Common Good is and how it can be promoted and strengthened by government is discussed in the next section.

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<sup>80</sup> MacIntyre, St. Thomas Aquinas on Politics and Ethics, p 14-15

## The Purpose of Government

All governments are called to promote and strengthen the Common Good. As John XXIII wrote in *Mater et Magistra*, “As for the state, its whole *raison d’être* is the realization of the Common Good.”<sup>81</sup> (*Mater et Magistra*, 20)

In *Gaudium et Spes*, the Church instructs the faithful that the Common Good is “the sum of those conditions of social life which allow social groups and their individual members relatively thorough and ready access to their own fulfillment....” (*Gaudium et Spes*, 26.)

In *Mater et Magistra*, John XXIII writes of demands of the Common Good, which include “...[C]reation of a proper balance between economic expansion and the development of social services, especially through the activity of public authority.” (*Mater et Magistra*, 79)

The Church teaches “Each human community possesses a common good which permits it to be recognized as such; it is in the political community that its most complete realization is found. It is the role of the state to defend and promote the common good of civil society, its citizens and intermediate bodies.” (*Catechism of the Catholic Church*, 1910) This idea of the common good is not the utilitarian idea of the greatest good for the greatest number, but rather the idea that the best possible society be created where the interests of no one are sacrificed to advance the interests of another. No person or group is sacrificed for “the greater good,” but rather the development of all is sought.

As the Church teaches, the Common Good consists of three essential elements.

The first is respect for the person. As creations of a loving God and children of the Almighty, we owe to all men, and should expect to receive from them, that respect. “In the name of the Common Good, public authorities are bound to respect the fundamental and inalienable rights of the human person. (*Catechism of the Catholic Church*, 1907)

The Common Good also requires “the social well-being and development of the group itself.” A good government will be in a position to arbitrate among the interests of the governed, in the name of the Common Good, and should also make accessible “what is needed to lead a truly human life: food, clothing, health, work, education and culture, suitable information, the right to establish a family, and so on.” (*Catechism of the Catholic Church*, 1908)

The Common Good also requires peace, both domestically and internationally. “It presupposes that authority should ensure by morally acceptable means the security of society and its members. It is the basis of the right to legitimate personal and collective defense.” (*Catechism of the Catholic Church*, 1909)

Summed up, “there is no better way to establish political life on a truly human basis than by fostering an inward sense of justice and kindness, and of service to the Common Good and strengthening basic convictions as to the true nature of the political community and the aim, right exercise, and sphere of action of political authority.” (*Gaudium et Spes*, 73)

The way a government can promote the Common Good<sup>82</sup> will vary according to time, place and circumstance. There are, however, certain characteristics which apply to good governance across any of a number of situations.

The Church understands that the natural rights which a government is called to foster and protect are inherent to humanity by its nature. The right to hold property, or the right to worship according to one’s conscience, are not granted to people by government action, but rather are given to all men by God. Government does not exist to give people rights, but to defend the rights to which they are entitled by virtue of being human.

The Church also understands that man is a social being, called to live together by nature and by God. As such, the need for some sort of authority exists. Man’s sinful nature makes it necessary that there should exist some force which can serve to protect him from the ill-intent of his fellows.

What are the steps by which a government can promote and preserve the Common Good? We can begin our discussion, then, by saying one purpose of government is to defend the governed against enemies both foreign and domestic. The government should provide police protection and military defense for the commonwealth in an effort to provide peace, in keeping with the demands of the Common Good.

Pope Pius XIII, in the encyclical *Libertas*, wrote “... the duty of the civil legislator is, mainly, to keep the community in obedience by the adoption of a common discipline and by putting restraint upon the refractory and viciously inclined men, so that, deterred from evil, they

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<sup>82</sup> It should be remarked that the promotion of the Common Good is not solely a function of government. As Samuel Gregg pointed out, “The common good is *everyone’s* concern. (*italics original*) Hence, not every or even most actions that seek to contribute to its realization should necessarily come from the state.” Gregg, *What is Social Justice?*

may turn to what is good, or at any rate may avoid causing trouble and disturbance to the state.  
(*Libertas*, 9)

In their defense of the Common Good, governments are called upon to pay special attention to promoting and strengthening family life. Catholic Social Teaching holds that it is the family, not the individual, that is the building block of society. As John Paul II wrote in *Familiaris Consortio*

The family has vital and organic links with society, since it is its foundation and nourishes in continually through its role of service to life: it is from the family that citizens come to birth, and it is within the family that they find the first school of the social virtues that are the animating principle of the existence and development of society. Thus, far from being closed in on itself, the family is by nature and vocation open to other families and to society, and undertakes its societal role. (*Familiaris Consortio*, 42)

He also said “as the fundamental nucleus of society, the family has a right to the full support of the State in order to carry out fully its particular mission. State laws, therefore, must be directed to promoting its well-being, helping it fulfill its proper duties.”<sup>83</sup>

The Church teaches “The family must be helped and defended by appropriate social measures. Where families cannot fulfill their responsibilities, other social bodies have the duty of helping them and supporting the institution of the family.” The importance of family life as the foundational structure of any society “entails a particular responsibility for society to support and strengthen marriage and the family. Civil authority should consider it a grave duty ‘to acknowledge the true nature of marriage and the family, to protect and foster them, to safeguard public morality and promote domestic prosperity.’” (*Catechism of the Catholic Church*, 2210)

For a society to function properly, the foundation must be strong. Therefore, it is necessary for any properly functioning government to promote and strengthen family life. But it is important to remember that government must not overstep its boundaries in this regard. Equally important to remember is that each family must act properly and in accord with its role as designated by God.

The good government should support not only the family, but other social groupings voluntarily entered into by the people. It must not disturb the formation or the actions of these groups, so long as the groups do not threaten the peace.

John Paul II wrote about the importance of these groups, saying

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<sup>83</sup> *World Day of Peace Message*, John Paul II, Jan. 1, 1994

Apart from the family, other intermediate communities exercise primary functions and give life to specific networks of solidarity. These develop as real communities of persons and strengthen the social fabric, preventing society from becoming an anonymous and impersonal mass, as unfortunately happens today. It is in inter-relationships on many levels that a person lives and that society becomes “personalized.” The individual today is often suffocated between two poles, represented by the state and the marketplace. At times it seems as though he exists only as a producer and consumer of goods, or as an object of state administration. People lose sight of the fact that life in society has neither the market or the state as its final purpose, since life itself has a unique value that the state and the market must serve. Man remains above all a being who seeks the truth and strives to live in that truth, deepening his understanding of it through a dialogue involving past and future generations. (*Centesimus Annus*, 49)

These groups include religious organizations, whether they be houses of worship, mutual-benefit societies or social bodies. The right to worship freely is one any proper government must defend. All humans have this right to religious freedom, and the Church and the popes in the 20<sup>th</sup> century have been very vocal in their defense of it.

*Dignitatus Humanae*, the Declaration of Human Freedom promulgated by Paul VI, states

This Vatican synod declares that the human person has a right to religious freedom. This freedom means that all men are to be immune from coercion on the part of individuals or social groups and of any human person in such wise that in matters of religion, no one is to be forced to act in a manner contrary to his own beliefs. Nor is anyone to be restrained from acting in accordance with his own beliefs, whether privately or publicly. (*Dignitatus Humanae*, 2)

John Paul II, in *Redemptor Hominis*, taught that an attack on religious freedom is an attack on the very dignity of man. He said

Certainly, the curtailment of religious freedom of individuals and communities is only a painful experience, but it is above all an attack on man’s very dignity, independently of the religion professed or the concept of the world which these individuals and communities have. The curtailment and violation of religious freedom are in contrast with man’s dignity and his objective rights. (*Redemptor Hominis*, 17)

The Common Good is further promoted by a proper understanding and respect for the idea of private property. Aquinas points out that “man has a natural dominion over things, as regards the power to make use of them.”<sup>84</sup> Further, he wrote “the ownership of possessions is not contrary to the natural law, but an addition thereto devised by human reason.”<sup>85</sup>

In *Rerum Novarum*, Leo XIII wrote

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<sup>84</sup> Aquinas, *STh*, II-II, 66, a.1

<sup>85</sup> Aquinas, *STh*, II-II, 66, a.2

The fact that God gave the whole human race the earth to use and enjoy cannot indeed in any manner serve as an objection against private possessions. For God is said to have given the earth to mankind in common, not because He intended indiscriminate ownership of it by all, but because He assigned no part to anyone in ownership, leaving the limits of private possessions to be fixed by the industry of men and the institutions of people. (*Rerum Novarum*, 22)

The Church teaches that not only is it the legitimate function of a government to protect private property, but also to see to it that the use of that property is in service to the Common Good. The right to ownership is absolute, but the right to use is subject to both eternal and temporal laws. “The right to private property, acquired by work or received from others by inheritance or gift, does not do away with the original gift of the earth to the whole of mankind. The universal destination of goods remains primordial, even if the promotion of the common good requires respect for the right to private property and its exercise.” (*Catechism of the Catholic Church* 2403) Further, “Political authority has the right and duty to regulate the legitimate exercise of the right to ownership for the sake of the common good.” (*Catechism of the Catholic Church*, 2406) This being said, care must be taken by authorities to not overstep their bounds and exert too much control over activity freely entered into.

The basis of the economy and economic life must be the private initiative of individuals and associations formed by them to this end; the state also has a role in directly stimulating, coordinating and integrating production in accordance with the principle of subsidiarity function. Of its nature, the state exists to facilitate the activity of its citizens, not to destroy or absorb it. Modern developments have given the state greater scope in economic policy, redressing imbalances and providing employment, but it must always maintain its first function, to facilitate private initiative.<sup>86</sup>

Leo XIII summed up the duty of states and rulers in *Rerum Novarum*, when he wrote “The foremost duty, therefore, of the rulers of the state should be to make sure that the laws and institutions, the general character and administration of the commonwealth, shall be such as of themselves to realize public well-being and private prosperity. This is the proper scope of wise statesmanship and is the work of rulers.” (*Rerum Novarum*, 32)

The Church teaches that all good governments share common traits and pursue common goals, including, as shown above, protection of its citizens, supporting the family and other social bodies and protecting private property. The Church also recognizes that the form a good government can take will vary according to time, place, custom and circumstance. The following

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<sup>86</sup> Charles, *Christian Social Witness and Teaching*, Vol. 2, p. 187

section will discuss some of the forms which governments have taken over the years, and assess which may be best suited to the pursuit of the Common Good and the full development and flourishing of mankind.

### **The Form of Proper Government**

As the Catechism of the Catholic Church states “The diversity of political regimes is morally acceptable, provided they serve the legitimate good of the community that adopts them. Regimes whose nature is contrary to the natural law, to the public order and to the fundamental rights of persons cannot achieve the common good of the nations on which they have been imposed.” (*Catechism of the Catholic Church 1901*)

Monarchy, dictatorship, democracy – these labels serve to describe some of the political systems which have existed in history. None are perfect, although some systems seem better suited to fully and properly serving mankind.

One doesn’t evaluate a system in the same manner in which one looks at an individual. Systems are creations of men, and as such, cannot be labeled as “sinful.” It is only the actions of men which can descend to the level of sin. Sin is personal and occurs only in the context of a human being’s relationship with his Creator. But when a certain system is being evaluated, it is important to remember

[T]he Church does not hesitate to condemn situations of life which are injurious to man’s dignity and freedom. These criteria also make it possible to judge the value of structures. These are the sets of institutions and practices which people find already existing or which they create, on the national and international level, and which orientate or organize economic, social and political life. Being necessary in themselves, they often tend to become fixed and fossilized as mechanisms relatively independent of the human will, thereby paralyzing or distorting social development and causing injustice. However, they always depend on the responsibility of man, who can alter them, and not upon an alleged determinism of history. Institutions and laws, when they are in conformity with the natural law and ordered to the common good, are the guarantees of people’s freedom and of the promotion of that freedom. One cannot condemn all the constraining aspects of law, nor the stability of a lawful State worthy of the name. One can therefore speak of structures marked by sin, but one cannot condemn systems as such. The criteria for judgment also concern economic, social and political systems. The social doctrine of the Church does not propose any particular system; but, in light of other fundamental principles, she makes it possible at once to see to what extent existing systems conform or do not conform to the demands of human dignity. (*Instruction on Christian Freedom and Liberation, 74*)

Rodger Charles pointed out that a focus “on sinful structures reflects modern materialism: sin is, however, primarily personal. That is not to deny the need to change unjust structures, but it underlines that sound structures do not necessarily secure the people’s good; they must be administered honestly.”<sup>87</sup>

When a system is examined, whether it be political or economic, and when the activities of those working within these systems is studied, it must be remembered that the essential element of concern is the human person. How does the system impact the human person? What is the effect of a specific decision on the human person? These are the questions which must be uppermost as one works to discern the good or ill of any system and of the activities which take place within it.

It should be understood that human action within any social, political or economic system can be influenced and constrained by that system. By way of example, one could look at the idea of profit in a capitalist economy. John Paul II pointed out “The Church acknowledges that legitimate role of profit as an indication that a business is functioning well. When a firm makes a profit, this means that productive factors have been properly employed and corresponding human needs have been satisfied.” (*Centesimus Annus*, 35)

However, the desire for profit in a capitalist system may come to be seen as a legitimate end to economic activity, replacing other ends, including a firm’s “existence as a community of persons who in various ways are endeavoring to satisfy their basic needs, and who form a particular group as the service of the whole of society.” (*Centesimus Annus*, 35)

Heinrich Pesch wrote that “once profit-taking becomes unconditional, things are important only to the extent that they can be made to serve economic needs. At this point, man comes to be regarded merely as a factor of production.”<sup>88</sup> He further warns that in such a system “Heaven and Earth are reduced to being an enormous factory, and everyone who lives off of it and is part of it is registered as if in some giant ledger book according to his monetary value.”<sup>89</sup>

Such a system can act to constrain human and limit the options available to people. But the system cannot force people to act in a sinful manner. While systems and structures have been labeled as “sinful,” it is the individual human who sins. And it would seem that just as there are

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<sup>87</sup> Charles, *Christian Social Witness and Teaching*, Vol. 2, p. 322

<sup>88</sup> Pesch, *Ethics and the National Economy*, p. 155

<sup>89</sup> Ibid



some systems which may make it easier for a person to sin, there are also philosophies and political systems better suited to mankind's proper development.

For instance, Pope Pius XI famously said one cannot be a good Catholic and a Socialist, given Socialism's improper understanding of the nature of men.

[A]ccording to Christian teaching, man, endowed with a social nature, is placed on this earth so that by leading a life in society and under an authority ordained by God he may fully cultivate and develop all his faculties unto the praise and glory of His Creation; and that by faithfully fulfilling the duties of his craft or other calling he may obtain for himself temporal and at the same time eternal happiness. Socialism, on the other hand, wholly ignoring and indifferent to this sublime end of both man and society, affirms that human association has been instituted for the sake of material advantage alone. (*Quadragesima Anno*, 118)

He adds "If Socialism, like all errors, contains some truth (which, moreover, the Supreme Pontiffs have never denied), it is based nevertheless on a theory of human society peculiar to itself and irreconcilable with true Christianity. Religious Socialism, Christian Socialism, are contradictory terms; no one can be at the same time a good Catholic and a true Socialist." (*Quadragesima Anno*, 120)

Socialism, Communism, Totalitarianism - all these are political philosophies which misunderstand the natural order and place man at the service of the state. These systems deny the existence of eternal truth and rely on a form of materialistic utilitarianism to satisfy only the physical wants and needs of the citizenry.

As John Paul II said of Totalitarianism, it

...arises out of a denial of truth in the objective sense. If there is no transcendent truth, in obedience to which man achieves his full identity, then there is no sure principle for guaranteeing just relations between people. Their self-interest as a class, group or nation would inevitably set them in opposition to one another. If one does not acknowledge transcendent truth, then the force of power takes over, and each person tends to make full use of the means at his disposal in order to impose his own interests or his own opinion, with no regard for the rights of others. (*Centesimus Annus*, 44)

He also said "The culture or praxis of totalitarianism also involves a rejection of the Church. The state or party which claims to be able to lead history toward perfect goodness, and which sets itself above all values, cannot tolerate the affirmation of an objective criterion of good and evil beyond the will of those in power, since such criterion, in given circumstances, could be used to judge their actions." (*Centesimus Annus*, 45)

Each of these systems is flawed because of their inability to properly understand the true nature and ultimate destiny of mankind. As Pius XI wrote

It is on faith in God, preserved pure and stainless, that man's morality is based. All efforts to remove from under morality and the moral order the granite foundation of faith and to substitute for it the shifting sands of human regulations, sooner or later lead these individuals or societies to moral degradation. The fool who has said in his heart "there is no God" goes straight to moral corruption (Psalms XIII, 1), and the number of these fools who today are out to sever morality from religion is legion. They either do not see or refuse to see that the banishment of confessional Christianity, i.e., the clear and precise notions of Christianity, from teaching and education, from the organization of social and political life, spells spiritual spoliation and degradation. No coercive power of the state, no purely human ideal, however noble and lofty it be, will ever be able to make shift of the supreme and decisive impulses generated by faith in God and Christ. If the man, who is called to the hard sacrifice of his own ego to the common good, loses the support of the eternal and the divine, that comforting and consoling faith in God Who rewards all good and punishes all evil, then the result of the majority will be, not the acceptance, but the refusal of their duty." (*Mit Brennender Sorge*, 29)

Since the end of World War II, the Church has leaned in favor of a system of free markets and democratic governments. Part of the reason is western governments in the years of the Cold War welcomed the Church and her pronouncements against Communism. But a larger reason, it may be argued, is that the freedoms which are inherent in democratic-capitalist systems are more attuned to human dignity and development than the alternatives found in other systems.

"The course of the Second World War ... revealed the virtues of the older and more securely founded democracy which flourished in Great Britain and the United States and which was derived from theories and practices of Western Christendom in the Middle Ages."<sup>90</sup> As the democratic nations of the world changed during the war years, the Vatican came to realize these systems, especially when contrasted with Communism and Fascism, were more conducive to helping man achieve his ultimate purpose. "By 1943, it was becoming clear that the Allies would win; it was also becoming clear in Rome that the democratic systems of Britain and the United States of America were better able to provide the right political context for a just peace, nationally and internationally."<sup>91</sup>

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<sup>90</sup> Ibid p. 106

<sup>91</sup> Ibid

Pius XII, in his 1944 Christmas message, *Democracy and a Lasting Peace*, said “the democratic form of government appears to many as a postulate of nature imposed by reason itself.”<sup>92</sup>

John Paul II wrote in *Centesimus Annus* “The Church values the democratic system, inasmuch as it ensures the participation of citizens in making political choices, guarantees to the governed and the possibility both of electing and holding accountable those who govern then, and of replacing them through peaceful means when appropriate,” and added “Authentic democracy is possible only in a state ruled by law, and on the basis of a correct conception of the human person. (*Centesimus Annus*, 197)

In *Sollicitudo Rei Socialis*, he expressed his hope that corrupt, dictatorial and authoritarian regimes be replaced by “democratic and participatory ones. This is a process which we hope will spread and grow stronger. For the ‘health’ of a political community – as expressed in the free and responsible participation of all citizens in public affairs, in the rule of law and in respect for the promotion of human rights – is the necessary condition and sure guarantee of the development of ‘the whole individual and of all people.’” (*Sollicitudo Rei Socialis* 44)

In summary, we are told “The Church recognizes that while democracy is the best expression of the direct participation of citizens in political choices, it succeeds only to the extent that it is based on a correct understanding of the human person.”<sup>93</sup>

This is not to say that the Church endorses democracy at the expense of any other possible political systems. And this is not to say that the democratic order and free-market capitalism have not faced fair criticism from the Church. Similar to Socialism, Fascism and Communism, much modern political thought suffers from a misunderstanding of the nature of man. Modern democracy sees the individual, rather than the family, as the basic building block of society, and endows man with “human rights” while at the same time ignoring the source of those rights.

Another criticism which can be leveled at contemporary democratic nations in their disregard for the goods and rights of future generations. There is little to stop a country from running up huge debts with the expectation that some future taxpayer will foot the bill. This issue will be covered in greater depth in the chapter on Intergenerational Justice.

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<sup>92</sup> Pius XII, *Democracy and a Lasting Peace*, 19

<sup>93</sup> Congregation for the Doctrine of the Faith, *Doctrinal Note on Some Questions Regarding the Participation of Catholics on Political Life*, 3

Likewise, the modern economic theories which laud the power of markets and put profit above all else ignore the true nature and purpose of economic activities. Profit is a means to an end, rather than an end in itself. And the fetishization of market forces can serve as an easy way to avoid responsibility for our actions. The market was made by men and was made for men. It is controlled by human beings. There are no natural laws or impartial forces which determine how an economy functions. All decisions in any economic system come from the mind of man.

John Paul II spoke against the “culture of death” which emerged from “a culture which denies solidarity ... actively fostered by powerful cultural, economic and political currents which encourage an idea of society excessively concerned with efficiency.” (*Evangelium Vitae* 12) He also points out

The process which once led to discovering the idea of “human rights” – rights inherent in every person and prior to any constitution and state legislation – is today marked by a surprising contradiction. Precisely in an age when the inviolable rights of the person are being solemnly proclaimed and the value of life is publicly affirmed, the very right to life is being denied or trampled upon, especially at the more significant moments of existence: the moment of birth and the moment of death. (*Evangelium Vitae*, 18)

He continues

This denial is still more distressing, indeed more scandalous, precisely because it is occurring in a society which makes the affirmation and protection of human rights its primary objective and its boast. How can these repeated affirmations or principles be reconciled with the continual increase and widespread justification of attacks on human life? How can we reconcile these declarations with the refusal to accept those who are weak and needy, or elderly, or those who have just been conceived? These attacks go directly against respect for life and they represent a direct threat to the entire culture of human rights. It is a threat capable, in the end, of jeopardizing the very meaning of democratic coexistence: rather than societies of “people living together,” our cities risk becoming societies of people who are rejected, marginalized, uprooted and oppressed.” (*Evangelium Vitae* 18)

In *Caritas in Veritate*, Pope Benedict XVI wrote

[T]he Church had a good reason to be concerned about the capacity of a purely technological society to set realistic goals to make good use of the instruments at its disposal. Profit is useful if it serves a means towards an end that provides a sense both of how to produce it and how to make good use of it. Once profit becomes the exclusive goal, if it is produced by improper means and without the common good as its ultimate end, it risks destroying wealth and creating poverty. (*Caritas in Veritate*)

Obviously, there is no one political system which is perfect. The Founding Fathers of the United States acknowledged this when they wrote in the Preamble to the Constitution that they

were working toward a “more perfect union.” They recognized that governments, being the work of man, would contain inherent flaws and would constantly need to be monitored and changed in tune with changing times and circumstances.

It is in working to fulfill the demands of the Common Good which should be the primary goal of any government, no matter its structure, no matter the time nor place. And it is the people who make up that government who must do the work to promote and protect the Common Good. When any government, through action or inaction, is detrimental to the Common Good, to the good of the family, or to any of the other goods mentioned above, that government is acting improperly. To be more precise, the individuals who are making the decisions which lead to detrimental results are acting in an immoral manner. When, as a result of too much debt, a government performs or fails to perform actions detrimental to these goods, we can argue that pursuing policies which lead to excess debt is improper.

The following chapter will examine some of the debt problems faced by nations in the past, giving special attention to how the burden of debt came to hamper the right and proper functioning of governments. It will look at some of the methods governments used to deal with these problems before turning to the theological responses which were promulgated as more and more governments across the globe found themselves getting ever deeper into debt.

## **Chapter Three**

### **Past Government Debt Problems**

When studying the history of government debt, it should be remembered most government debt transactions have been conducted with little or no trouble; money was borrowed for a specific purpose and the lenders paid off promptly and in full. There have been times, however, when governments contracted too much debt and were subsequently unable or unwilling to make repayments. At times, the result has been a government losing control of revenue streams, natural resources or areas of its sovereign state. In the most extreme cases, the excess debt led to the extinction of the sovereign state as it was subsumed into some larger entity.

Government borrowing in the past was radically different from what we currently understand by the term. As mentioned previously, a government would “borrow” from its food and treasure stored in temples and other places during times of economic duress, natural disaster or war. The “debt” would be repaid when, following a harvest, the stores were replenished. During the ensuing centuries, governments grew in size and sophistication, and the financial needs of governments increased. Unforeseen expenses could force the rulers to seek additional sources of funding, including raising money through borrowing.

Like any tool, government debt is neither good nor bad. Rather, it is the uses to which the debt is put and the manner in which it is used that determines whether debt is benign or not. Excessive debt, or over-reliance on debt financing, can be a detriment to government and society. A government which borrows too readily and which is unprepared to repay what it owes will leave itself little room to maneuver when a crisis arises.

History is rife with examples of mighty empires which brought themselves trouble by ignoring the proper uses of debt. The accumulation of the debt, however, was rarely the proximate cause of an empire’s demise. Whether ancient Rome, Renaissance Spain or the Soviet Union, the fact that a government was heavily indebted was not the primary cause which pushed them over the edge. But the debt burden made it that much more difficult, and in some cases impossible, for the rulers to handle that final crisis which brought these great powers to their knees.

## The Fall of Rome

Historians continue to argue over what finally caused the collapse of the Western Roman Empire in the 5<sup>th</sup> century A.D. Whatever the cause, the governors of the Roman Empire were hampered in their responses to crisis by the fact that the Imperial treasury had been depleted over the past centuries, with a series of currency debasements initiated to reward favorites of the emperor and refill the state's coffers.

Some trace the beginnings of the Empire's collapse to events which took place a century or more prior to the final fall of Rome. Events which could have been handled in normal times assumed new significance as they revealed the government's impotence to satisfactorily react to them. As Niall Ferguson pointed out "In Imperial crises, it is not the material underpinnings of power that really matter, but the expectations of future power."<sup>94</sup>

He further points out "There is a zero-sum game at the heart of the budgetary process: if interest payments consume a rising proportion of tax revenue, military expenditure is the item most likely to be cut because, unlike mandatory entitlements, it is discretionary."<sup>95</sup> In the case of Rome, it wasn't interest payments that impacted the budget, but rather the cost of providing discounted and later, free, grain to the citizens. "The program ballooned until it was the second largest expenditure in the Imperial budget, behind the military."<sup>96</sup>

This lack of financial flexibility may not have caused the empire to crumble, but it did stymie the rulers and limited the possible solutions they could pursue. At the end of the empire, Rome was dealing with barbarian invasions, an overburdened military which would regularly insert itself into the political process, and a demanding citizenry which had grown accustomed to the famous "bread and circuses."

Forced to deal with the rising costs of their military and social spending – call it gladius and butter – the Roman government decided on a course of debasing their currency in an effort to create enough funds to pay their debts. By the third century, the coinage situation in Rome had become so bad, "the government itself, under Diocletian and Constantine, refused to accept coins in payment of taxes, but insisted instead on gold bullion."<sup>97</sup> By the latter part of the third century,

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<sup>94</sup> Ferguson, *"Complexity and Collapse: Empires on the Edge of Chaos,"* p. 31

<sup>95</sup> Ibid p. 32

<sup>96</sup> Reed and Hayden, *The Slow-Motion Financial Suicide of the Roman Empire*

<sup>97</sup> Peden, *"Inflation and the Fall of the Roman Empire"*

“inflation raged. Because the supply of gold and silver was running low ... the emperors from Septimius Severus on repeatedly debased the currency in order to pay for military supplies and state expenses.”<sup>98</sup> The Emperor Diocletian, in an effort to combat inflation, promulgated an edict to fix prices. “Because of foreign and civil wars and the resultant needs of the government, the currency had been depreciated to an extraordinary extent: silver plated copper coins had been issued ..., prices had risen sharply and galloping inflation had virtually obliterated the middle class.”<sup>99</sup>

In the year 300, “it took 50,000 *denarii* to buy a pound of gold. Six years later, after the minting of many more *denarii*, each with less and less silver, it took 100,000 of these pieces of metal to buy a pound of gold. By 324, it took 300,000. And by 350, it took 2,120,000,000.”<sup>100</sup> Inflation following Diocletian’s reign “may in some years have reached triple-digit levels measured in the price of *denarius* (a small – and getting smaller – coin) but was very low measured in terms of the gold *solidus* (a large coin).”<sup>101</sup>

By the late fourth century, the state of the Roman economy was so dire, and the currency situation so fractured, the government would collect taxes in the form of clothing, services and food for the troops. This led to a form of semi-serfdom, with families tied to their farmland and forced to grow food and weave to fulfill their tax obligations. The obligation became hereditary, so even if a young man or woman wanted to leave the farm for the city, they would be forcibly returned to work the land or the loom.

Rome fell in 410 to the Visigoths. The barbarians were the proximate cause of the city’s fall. But this final crisis became a final crisis because the empire could not muster the forces necessary to counter the invasion. An empty treasury and failed economy, brought about by profligacy at the highest levels of government, can, in hindsight, be seen to have hastened Rome’s collapse.

## **The Debt of Kings**

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<sup>98</sup> Kaplan, “*Inflation: Rome, 301 – U.S. A. 1971*,” p. 49

<sup>99</sup> Ibid

<sup>100</sup> Kutlikoff, Burns, *The Coming Generational Storm*, p. 123

<sup>101</sup> Fisher, et. al., “*Modern Hyper- and High Inflations*.” In a footnote on page 837, the authors point out “This appears to have been an early example of the adage that inflation is a regressive tax, for the *solidus* was reportedly too valuable to be held by the poor.”



Following the demise of the Western Roman Empire, the use of coins practically died out in Europe. Wealth was measured in raw materials, land and manpower. A feudal baron could raise a peasant levy and rely on his knights in time of battle. Very rarely would he need to raise hard assets of gold or silver to pay for troops to fight.

The Italian city-states in the 12<sup>th</sup> century reintroduced widespread and widely accepted coins in Europe. And it was here that the banking houses made it possible for princes and kings to borrow money and wage war on a larger scale.

“By the late thirteenth century merchant banks were conducting international trade throughout Europe and beyond. Ledgers in Brugge recorded batches of sealskins from Greenland to pay papal dues. Marco Polo (or the genuine sources he used to confect his memoirs) observed Genoese ships trading on the Caspian Sea. The first great European bankers were the Bardi family of Florence, who flourished from 1250. By the following century they had risen to become the sole Papal bankers, holding a monopoly on the collection of papal revenues throughout the Continent.”<sup>102</sup>

Unfortunately for the Bardi family, they made the decision to lend to England’s Edward III, who later decided he had no need to repay his debt. “When Edward reneged on his colossal debts, there was nothing the Bardi’s could do about it. Commerce had money and influence, but as yet no real power. In 1345 the House of Bardi went bankrupt, contributing to an economic downturn throughout Europe.”<sup>103</sup>

In the 14<sup>th</sup> and 15<sup>th</sup> centuries, the city-states of the Italian peninsula were almost constantly at war. And, as St. Gregory Nazianzus has said, “War is the mother of taxes.” The city-states needed gold to pay the mercenary troops who made up the bulk of their fighting forces. Unlike feudal lords in France or England, for instance, the city rulers in Italy could not rely on a large population of peasants or landed nobles to fill the ranks of an army. Therefore, when a city-state needed to field an army, that army was more often than not largely made up of hired professionals. It was an expensive endeavor. In the 15<sup>th</sup> century, for instance, Florence’s debts would sometimes equal half the city’s annual output.

“From whom could Florence possibly have borrowed such a huge sum? The answer is from themselves. Instead of paying a property tax, wealthier citizens were effectively obliged to

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<sup>102</sup> Strathern, *A Brief History of Economic Genius*, p. 1-2

<sup>103</sup> Ibid

lend money to their own city government. In return for these forced loans (*prestanze*), they received interest.”<sup>104</sup>

It was this continuous warfare, and the need to pay for it, which pushed some of these city-states to financial ruin. In Venice, for instance, “It is no coincidence that the year 1400, when Venice was fighting both on land in Lombardy and at sea against the Ottoman Empire, saw a severe financial crisis as bonds crashed in value and interest rates soared. Likewise, the bond market rout of 1509 was a direct result of the defeat of the Venetian armies at Agnadello. The result in each case was the same: business ground to a halt.”<sup>105</sup>

Wars are expensive. The observation of Marcus Tullius Cicero – “The sinews of war are infinite money” – is as true today as it was in ancient Rome. And as feudal Europe changed and adopted the idea of the nation state, the nature of warfare changed as well. Governments began to create standing armies and navies. These new armies required better equipment, more training, and had to be paid whether they were in battle or in the barracks. The great lords and kings of Europe could still call on peasant levies and knights to fill out the ranks, but increasingly these ranks were manned by professionals.

### **Spain and the Riches of the New World**

While the tale of Queen Isabella hocking her royal jewels to finance Columbus’ 1492 expedition may be apocryphal, it is true that following the Reconquista of the Iberian Peninsula Spain was in severe financial straits. But all that changed as gold, silver and exotica from the New World arrived to fill the kingdom’s coffers. The yearly Treasure Fleet which arrived from the Americas enabled Spain to become the premiere power in both Europe and the New World. Yet even that seemingly infinite wealth was not enough to keep Spain’s rulers from overborrowing, overspending, and defaulting on their obligations.

Charles V, the Holy Roman Emperor, had a life

...marked by a seemingly endless succession of military campaigns against rival European monarchs, particularly the French king, Francis, against the Ottoman Turks and, latterly, against heresy and revolt in Germany. As head of the Hapsburg imperial family, as the inheritor, through his mother, of the Spanish crown, Charles had undertaken military commitments that had caused a financial crisis. In the course of his reign, he managed to raise unprecedented loans from the

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<sup>104</sup> Ferguson, *The Ascent of Money*, p. 71

<sup>105</sup> *Ibid*, p. 73

financial centers of Western Europe. Between 1520 and 1532, he had borrowed 5.4 million ducats.”<sup>106</sup>

The amount grew to 9.6 million ducats at the end of his tenure of the imperial crown.<sup>107</sup>

Charles was succeeded on the throne of Spain by his son Philip. On discovering the entirety of Spain’s revenues had been pledged to repay loans and interest, Philip “simply suspended all payments to his bankers in January 1557.”<sup>108</sup> This began a series of serial defaults by Philip.

The most spectacular defaulter in the early history of international debt was Philip II of Spain. He turned to the Genoese banking community to finance his various enterprises, which included the Armada, the reconquest of Belgium and campaigns against the Ottomans. While Spain’s New World minerals brought unprecedented wealth, Philip’s finances were in perpetual disarray. (This was perhaps the first example of a government’s natural resource windfall abetting an unsuccessful fiscal outlay.)<sup>109</sup>

The new wealth pouring into Europe via Spain was a tonic to a continent which a century earlier had been devastated by The Black Death. At the same time, the new wealth brought a new set of problems to the people and their rulers. Wars against the English, the rebellious provinces of the Netherlands, and military action in the Mediterranean Sea against the Ottoman Empire proved very expensive.

The Spanish were unfortunate “in so far as their bid for European hegemony coincided with a revolution in military technology, which led to a ‘massive increase in the scale, cost and organization of war.’ Charles V managed to raise loans on the basis of a steady stream of gold and silver coming into Spain. Lacking a central bank, the Spanish crown relied on private bankers...,<sup>110</sup>” including bankers from the Holy Roman Empire and northern Italy.

“Every modern state spent more on armies and navies than on any other activity. Philip II was at war every single year of his reign. Fully 60% of the crown’s expenditures went to the military. Battlefield successes required large forces, often in distant theaters of war. To succeed, states needed to ramp up spending quickly and sustain it for long periods.”<sup>111</sup>

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<sup>106</sup> Kwarteng, *War and Gold*, p. 11

<sup>107</sup> Ibid. The author notes that in 2014 values, the latter amount is equal to about \$1 billion.

<sup>108</sup> Ibid, p. 12

<sup>109</sup> Clifford, *“When Countries Go Broke: Debt Through the Ages,”* p. 46

<sup>110</sup> Kwarteng, *War & Gold*, p. 19

<sup>111</sup> Drelichman and Voth, *“Lending to the Borrower From Hell: Debt & Default in the Age of Philip II,”* p. 1207

A major issue which plagued the Spanish was their inability to embrace and use financial innovation, falling behind both the Dutch and the English in developing a banking system and a system of bonds and credit.

“The king had access to few smoothing mechanisms: short-term borrowing; depositing funds with bankers; and long-term borrowing. Given urgent, volatile spending needs, only the first of these mechanisms was practical.”<sup>112</sup>

### **Debt in London and Amsterdam**

Instead of Barcelona or Madrid, the foundation of what we know as modern debt markets is found in London and Amsterdam. It was this financial innovation that enabled the English and the Dutch to withstand the material advantages of the Spanish. Where the Spanish King could draw on the resources of his colonies in the Americas, on his nobles and on the banking houses willing to lend to him, the English and Dutch drew on thousands of smaller investors – traders, townsmen and landholders.

Spanish rule was a watershed in financial as well as political history. With their republican institutions, The United Provinces [of the Netherlands] combined the advantages of the city-state with the scale of a nation-state. They were able to finance their wars by developing Amsterdam as a market for a whole range of new securities .... By 1650, there were more than 65,000 Dutch *rentiers*, men who had invested their capital in one or another of these debt instruments and thereby helped finance the long Dutch struggle to preserve their independence.<sup>113</sup>

Given their common interest in opposing the encroachments of Spain, it is no surprise that these financial innovations crossed the Channel and soon were being adopted by the English.

The English financial system was already significantly different from that of the Continental monarchs. The lands controlled by the crown had been sold off earlier than elsewhere, increasing the power of Parliaments to control royal expenditures at a time when their powers were waning in Spain, France and the German lands. There was already an observable move in the direction of a professional civil service, reliant on salaries rather than speculation. The Glorious Revolution accentuated these divergences .... There would be no more debasement of the coinage ... there would be Parliamentary scrutiny of royal finances ... there would be a sustained effort to consolidate the various debts that the Stuart dynasty had incurred over the years....<sup>114</sup>

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<sup>112</sup> Ibid, p. 1211

<sup>113</sup> Ferguson, *The Ascent of Money*, p. 74-5

<sup>114</sup> Ibid, p. 75

The defeat of the English navy in 1690 at the hands of the French in the Battle of Beachy Head led the country's rulers to build a new, better and larger navy. To raise the necessary funds, a subscription of over 1.2 million pounds was put together. It was this fundraising which gave birth to the Bank of England. The group forming the nucleus of the bank loaned the 1.2 million pounds to the crown, and in return gained the right to issue debt and currency notes. This innovation resulted in the creation of the world's second central bank, (following Sweden's Riskbank), and enabled the British Empire to expand their military might while, at the same time, create colonies and expand their mercantile reach across the globe.

In the 18<sup>th</sup> and 19<sup>th</sup> centuries, the English engaged in a series of wars with the French and Spanish, while simultaneously constructing colonies in North America, the Caribbean and Asia. Financing these endeavors called for proper and judicious use of government borrowing. It is to the credit of the nation's banking system that, despite running up huge debts, the British government never experienced the tragic collapse of their political or economic system. During the Napoleonic Wars, for instance, "... British national debt increased by a factor of three, to 745 million pounds [between 1793 and 1815], more than double the output of the British economy."<sup>115</sup> The nation and its rulers were able to survive and even thrive during this period, thanks in large part to the fact that the government's coffers were never empty.

During every period of financial innovation, there are those who can adapt to the new realities and those who fail to adjust, or who fall prey to the too common belief that "this time is different," and behave foolishly.

### **Scotland's Darien Scheme**

At the same time England was establishing a central bank and preparing to successfully use these financial tools, the government of Scotland set forth on a course of action which eventually led to the country going bankrupt and resulted in the loss of Scottish independence and subsequent political union with England.

At the end of the 17<sup>th</sup> century, the economy of Scotland was in shambles. In an attempt to promote their local woolens trade, the Scottish government enacted a series of trade and tariff barriers, effectively cutting off Scotland from the international cloth trade. This led to a series of retaliatory tariffs on the part of England and the continental powers.

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<sup>115</sup> Ibid, p. 80

Unable to generate trade on the continent, the decision was made to create new markets for Scotland's trade. This led to the creation of The Company Trading to Africa and the Indies – better known as The Darien Company – which was founded in 1695.

“This ill-fated undertaking was in fact the keystone of the whole edifice of Scottish commercial policy. It was the logical outcome of the Act of 1681; for once Scotland prohibited the manufactures of other countries, the retaliation of those countries had to be faced.”<sup>116</sup>

The Darien scheme envisioned the creation of a colony and plantations on the Isthmus of Panama. The people of Scotland flocked to purchase shares in this new company. “Public bodies, town corporations, members of Parliament and thousands of private citizens – sea captains and surgeons, apothecaries and iron mongers – sank their life savings into the scheme. Between a quarter and a half of the available wealth of Scotland was spent and lost.”<sup>117</sup>

The government and people of Scotland gathered all their resources to gamble on this ambitious, but ultimately doomed, scheme. “The country pledged not only most of its floating capital, but also much of its available credit on the success of the Darien scheme. This course was magnificently bold, but it left no way of recuperation in the event of failure, and what was tragic in the situation was that only by a miracle could failure have been escaped.”<sup>118</sup>

The failure of the Darien scheme can be attributed to a number of factors. The site chosen for the colony was dense jungle, difficult to farm, disease-ridden and inhospitable.<sup>119</sup> Foreign merchants and governments offered no aid to the colony and refused trade with the Darien settlers. The Spanish had laid claim to the region and were less than pleased with this Scottish plan. English officials in the Americas were forbidden from giving any aid or comfort. The coordination of ships and supplies went awry – the original colonists were forced to abandon the original site and fled to Jamaica seeking help. The second leg of the expedition arrived to find some abandoned huts where they were expecting to find a functioning farm and colony.

The subsequent financial collapse of Scotland was one of the factors leading to the loss of that nation's political independence. “The final trigger in events leading to the Act of Union was

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<sup>116</sup> Scott, *“The Fiscal Policy of Scotland Before the Union,”* p. 180-1

<sup>117</sup> Little, *“The Caribbean Colony That Brought Down Scotland,”* 1

<sup>118</sup> Scott, *“The Fiscal Policy of Scotland Before the Union,”* p. 182

<sup>119</sup> In fact, the region of Panama where the Darien colonists landed is still sparsely populated today.

economic – the debacle of the “Darien Scheme,” which left the Scottish state virtually bankrupt.”<sup>120</sup>

While not the sole factor leading to the Act of Union – Scotland also suffered a series of poor harvests in the late 1690s, which led to famine in which perhaps 5% of the population died<sup>121</sup> - the Darien Scheme again shows the perils of a government handcuffing itself with excess debt.

### **Debt Crises in Africa and Latin America**

Taking their lead from the English model, many of the emerging nation states in the early 19<sup>th</sup> century, especially in Latin America, Northern Africa and Eastern Europe began to issue bonds and increase their debt for purposes other than financing warfare. What followed were recurring periods of default, as the increasing interdependence of international trade flows and finance meant that events far away and out of the direct control of a borrowing nation could act to damage a nation’s economy.

“The first such [pattern of default] peak was during the Napoleonic Wars. The second ran from the 1820s through the late 1840s, when at times nearly half the countries in the world were in default (including all of Latin America.) The third began in the early 1870s and lasted for two decades.”<sup>122</sup>

As mentioned, it was the increasing complexity and interconnectedness of international trade and money flows combining with the inexperience of newly minted government officials in newly minted states that resulted in over-borrowing and extravagant expenditures.

Only in the 19<sup>th</sup> century, however, did debt crises, defaults and debt restructurings – defined as changes in the originally envisaged debt service payments, either after a default or under the threat of default – explode in terms of both numbers and geographical incidence. This was the by-product of cross-border debt flows, newly independent governments and the development of modern financial markets.<sup>123</sup>

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<sup>120</sup> Lyon, *Constitutional History of the U.K.*, p. 285

<sup>121</sup> Ibid

<sup>122</sup> Reinhart and Rogoff, *This Time is Different, Eight Centuries of Financial Folly*, p. 68

<sup>123</sup> Sturzenegger and Zettlemeyer, *Debt Defaults and Lessons From a Decade of Crises*, p. 3

As governments became larger, more complex and more involved in the lives of their citizens, as finance became more pervasive, as the spheres of social and political life became more entwined, new rules and new ideas had to be developed to deal with these new realities. As nations grew to encompass more land, greater diversity and new financial realities, the powers that be needed to learn how to use these new fiscal tools to their benefit.

Great powers and empires are, I would suggest, complex systems, made up of very large numbers of interacting components that are asymmetrically organized, which means their construction more resembles a termite hill than an Egyptian pyramid. They operate somewhere between order and disorder – “on the edge of chaos” in the phrase of the computer scientist Christopher Langton. Such systems can appear to operate quite stably for some time; they seem to be in equilibrium but are, in fact, constantly adapting. But there comes a moment when complex systems “go critical.” A very small trigger can set off a “phase transition,” from a benign equilibrium to a crisis – a single grain of sand can cause a whole pile to collapse, or a butterfly flaps its wings in the Amazon and brings about a hurricane in southeastern England.<sup>124</sup>

As the emergence of modern debt instruments and financing methods helped to spread the use of bonds and other instruments among the nations of the world, new difficulties also emerged.<sup>125</sup> Excess debt and the inability or unwillingness to repay frequently would exacerbate some major crisis. In the 19<sup>th</sup> century, situations arose where the existence of the debt itself became a trigger for a crisis. The 1800s were rife with examples of a lender nation using the existence of debt as an excuse to dictate policy to a debtor nation. In addition, examples of military intervention and occupation by lender nations are scattered through the history of the century.

The result was usually a loss, partial or full, over the collection of taxes, tariffs and other government income. Often, concessions would be granted to foreign companies for mining rights, infrastructure projects or the export of natural resources. Sometimes, the end result was military occupation, ostensibly to enforce the terms of the debt contract, but actually to secure some strategic advantage, such as the British occupation of Egypt in the 1880s, which brought with it control of the Suez Canal.

The structure for international lending remained largely unchanged from the 17<sup>th</sup> through early 20<sup>th</sup> centuries. Foreign lending took two forms. First was short-term trade finance that

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<sup>124</sup> Ferguson, *Complexity and Collapse: Empires on the Edge of Chaos*, p. 22

<sup>125</sup> This is not to say that all use of debt was poorly conceived and executed. There are numerous examples of nations using debt wisely and well to finance infrastructure and other projects.



functioned as an advance to raw material producers or to facilitate international payments. Second were special purpose loans at fixed interest rates. The latter were used to build much of South America's and Russia's physical infrastructure.<sup>126</sup>

A few examples will suffice to show how these loans could serve as an excuse for foreign powers to infringe upon the sovereignty of a nation.

The aforementioned British action in Egypt is one such example. "In 1887, Britain invaded Egypt, which had defaulted in 1876 and where public finances were already under the control of a Franco-British debt administration council."<sup>127</sup> The situation in Egypt was dire when the British invaded. Egypt began borrowing in the 1860s, under the Khedive Ismail Pash. "From 1863, the national debt [of Egypt] had more than quadrupled. The money had been used to rebuild Cairo in imitation of Paris, to extend Ismail's properties until they included 20% of Egypt's arable land, to build a road system and to operate factories."<sup>128</sup> British intervention was an effort to force Egypt to honor her debts. However, the larger issue of control over access to the Suez Canal couldn't be ignored. "The use of military or naval superiority by the lending governments was usually eschewed, unless, as in the case of Egypt, important political objectives were also thought to be threatened."<sup>129</sup>

The occupation of the country by British troops sought to strengthen the authority of the Franco-British council and gave the European powers greater control. The result was a loss of sovereignty for Egypt. "Under the Constitution of 1883, the British Consular General was the real governing power. The Egyptian representative bodies could advise and criticize, but not directly oppose." It wasn't until 1923 that Egypt regained formal political independence.<sup>130</sup>

Most of the nations so treated were small, newly created countries. When they borrowed, they usually pledged revenue from the sale of raw materials or agricultural products. A downturn in the world economy, such as the Crisis of 1837, would reduce income flow to such an extent that these nations were unable to service their debt. The end result was often the loss of control over state revenue, which would be given over to a group selected by the nation's creditors.

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<sup>126</sup> Lewis, *'When Countries Go Broke: Debt Through the Ages,'* p. 47

<sup>127</sup> Sturzenegger and Zettlemeyer, *Debt Defaults and Lessons From a Decade of Crises,* p. 19

<sup>128</sup> Foreman-Peck, *A History of the World Economy: International Economic Relations Since 1850,* p. 139

<sup>129</sup> Ibid, p. 134

<sup>130</sup> Ibid, p. 139-40

The problem for the foreign creditor is how to get access to the tax receipts. The private citizen who goes bankrupt can be coerced by the state to conform to the bankruptcy laws, which in the 19<sup>th</sup> century included going to debtor prison. The foreign creditor could only appeal to the borrowing country's government, and his own government, to have his interests considered. In fact, many defaulting countries in the 19<sup>th</sup> century did submit to treatment much like that of a firm. Foreign commissioners were appointed to administer certain tax receipts, such as the customs duties, and to appropriate some or all of the revenue for the repayment of interest and capital on the debt. Just as under the Bretton Woods system of the post-Second World War period, these countries had to relinquish some sovereignty as a result of their economic mismanagement until the mistakes were rectified.<sup>131</sup>

Similar to the situation seen during Greece's 21<sup>st</sup> century debt crisis, the debtor government sacrificed some degree of sovereignty in the face of their inability or unwillingness to repay what they borrowed. Unlike the current situation, however, the overseers were not assigned by a multi-national organization, such as the International Monetary Fund or the World Bank. Instead,

Control over specific revenue streams accompanied settlements with Tunisia (1869-1870), Egypt (1876), Serbia (1895), Greece (1898), Morocco (1903), the Dominican Republic (1904 and 1931) and Liberia (1912). The assigned revenues were typically collected by a "debt administration council" composed of creditors' and debtor governments' representatives ....In a few regimes, including Egypt and Liberia, creditors essentially took over the management of the public finances of the country.<sup>132</sup>

In 1907, the United States established a financial protectorate in the Dominican Republic, and in 1916 occupied the country. U.S. troops were also sent to Haiti and Nicaragua in the early years of the last century "to control the customs houses and obtain revenue for debt servicing."<sup>133</sup>

A joint naval expedition made up of ships from Britain, Germany and Italy temporarily blockaded the ports of Venezuela when that country defaulted on its foreign debts in the early years of the 20<sup>th</sup> century.<sup>134</sup>

The examples continue. "In 1863, France, initially supported by Spain and Britain, invaded Mexico after the republican regime of Benito Juarez refused to honor Mexico's debt

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<sup>131</sup> Ibid, p. 134

<sup>132</sup> Sturzenegger and Zettlemeyer, *Debt Defaults and Lessons From a Decade of Crises*, p. 16

<sup>133</sup> Reinhart and Rogoff, *This Time is Different, Eight Centuries of Financial Folly*, p. 83

<sup>134</sup> Ferguson, *The Ascent of Money*, p. 98

service obligations, briefly installing the Austrian Archduke Maximilian as Emperor. (Maximilian was dethroned and executed in 1867, after which Mexico repudiated for good.)”<sup>135</sup>

### **Newfoundland and The End of Independence**

The cautionary tale of how the country of Newfoundland lost its independence and was incorporated into Canada serves as an example of how excess public debt is a danger not just to a country’s economy, but also to its social and political structures.

The political dislocations of the 1920s and 1930s, especially in Europe, serve as examples of the extreme behavior which often accompanies financial collapse. The rise of communism and fascism in the early decades of the last century did not occur in a vacuum. Rather, the collapse of social and political norms which followed the economic traumas suffered after World War I created fertile ground for extremism.

So it was in Newfoundland in the 1930s. What happened there, however, was not the rise of a fascist strongman or a communist demagogue. Rather, the social and political dislocations caused by excess public debt led to the populace surrendering power to a technocratic board of politicians.

Newfoundland was a British colony until 1907, when it was granted Dominion status through a Royal Proclamation. The economy of the nation had weathered the First World War rather well, with public debt and expenditure sitting at reasonable levels.

Including \$13 million for war purposes, by the beginning of the 1920s, the [government of Newfoundland’s] debt stood at only \$43 million. More spectacular increases occurred after 1920, the total debt being more than doubled in the space of 12 years. Throughout this period, the average annual deficit was some \$2 million, including losses on operation of the railway system which early in the decade passed from private hands to government ownership. The current deficits, together with capital expenditures upon public works, were covered by borrowing from abroad at interest rates from 5% to 6.5%, to the extent that in each year some \$4.8 million was added to the public debt, which by 1933 reached nearly \$100 million.<sup>136</sup>

A government commission described the spending as “sunk in waste and extravagance,” and said it displayed “a reckless disregard for the dictates of financial prudence.”<sup>137</sup> When the

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<sup>135</sup> Sturzenegger and Zettlemeyer, *Debt Defaults and Lessons From a Decade of Crises*, p. 19

<sup>136</sup> Mayo, ‘*Newfoundland’s Entry into the Dominion*,’ p. 505

<sup>137</sup> Ibid

Great Depression hit, Newfoundland, like most of the industrialized world, saw its financial situation becoming more precarious. Already burdened by unmanageable government debt, the economy was further impacted by declining demand for the fish and lumber which made up the nation's main exports.

With the onset of the Depression conditions deteriorated quickly, and Newfoundland's difficult budget situation became disastrous. The country's main export industry collapsed and the total value of fish sent abroad fell from more than \$16 million in 1929 to \$7.3 million in 1936. Government revenues, meanwhile, derived mainly from customs duties, fell also as people curtailed their consumption. A revenue of \$11.6 million in 1929-30 declined to \$8 million in the period 1930-33; interest on the national debt ate up 60% of the annual revenue. At once, public relief expenditures leapt to more than \$1 million per year.<sup>138</sup>

The situation became so dire that by December of 1932, the island's administration resolved to default on its interest payments. Only a timely loan from the U.K. and Canada, with each contributing \$625,000, averted a default. The U.K. later contributed another \$1.85 million to stave off a default by Newfoundland.<sup>139</sup> As a result of the government's financial situation, Newfoundland was forced to dramatically cut expenditures and gut its civil service and assistance programs.

As bad as the financial situation in Newfoundland was in the early 1930s, the political situation was in some ways even worse. The political parties had failed their constituents, and the populace began to lose faith in the political process. In a manner similar to Germany, Italy, Spain and other European nations, a large and vocal segment of the population began to call for someone to bring order to the chaotic situation, to break the stranglehold of the political class and to restore some manner of government which could control the situation, even if that government wasn't democratic. As things became worse, people began to question the values of democracy and ask if there were a better way.

"Calls for an end to responsible government had been increasing since the middle of 1931. But as the financial crisis deepened, there were further demands to end party politics. The feeling was that democracy and the party system were obsolete; particularly that they hindered retrenchment, as well as swift and firm action to deal with the crisis."<sup>140</sup>

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<sup>138</sup> Overton, *Economic Crisis and the End of Democracy: Politics in Newfoundland During the Great Depression*, p. 103

<sup>139</sup> Keith *The Report of the Newfoundland Royal Commission*, p. 25

<sup>140</sup> Overton, *Economic Crisis and the End of Democracy: Politics in Newfoundland During the Great Depression*, p. 109-10

One Newfoundland politician, William Coaker, wrote “What is required for Newfoundland and what is most essential for present conditions is a Mussolini: If a man with a soul encased in steel and not under 40 years old appeared on the political horizon today as a Mussolini, I would support him with all my strength.”<sup>141</sup> The collapse of the national economy due to government over-expenditure and debt resulted in a collapse of the political system. The people of Newfoundland willingly gave up their popular sovereignty and put control of the island’s government into the hands of a commission, appointed by and responsible to Westminster.

The Commission “was a unique experiment in the history of the Commonwealth; and indeed, there can be few examples in the world of a freely elected legislature, backed overwhelmingly by public opinion, subscribing frankly to the doctrine that democracy is less important than debt obligations and that good government is preferable to self-government.”<sup>142</sup>

The financial situation in Newfoundland improved with the onset of World War II. The nation’s ports served as way stations for the British, Canadian and U.S. navies, and the prices for fish, oil and coal rose. But the islanders had long memories when it came to the financial and political upheavals of the 1930s. After the war, when given the choice of continuing the commission of government system, returning to a system of responsible government or accepting confederation with Canada, the people of Newfoundland in 1948 voted for the latter.

Canada assumed Newfoundland’s net external debt of \$62.5 million, payable in sterling, while the island was left with an internal debt of only \$9.5 million.<sup>143</sup>

### **The Suez Crisis of 1956**

A final example of how a government can find itself impacted by excess debt is the situation faced by the U.K. and France during the 1956 Suez Crisis. In 1956, Egyptian President Gamal Abdel Nasser announced the nationalization of the Suez Canal, and closed that important passage to Israeli shipping. In response, Israeli troops, with the blessing of the French and British governments, invaded Egypt on the 29<sup>th</sup> of October.

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<sup>141</sup> Ibid, p. 110

<sup>142</sup> Mayo, *‘Newfoundland’s Entry into the Dominion,’* p. 508

<sup>143</sup> Ibid, p. 515

Britain and France used the pretext of Israeli-Egyptian hostilities, which they themselves had conspired to precipitate, to deliver an ultimatum to Egypt to cease hostilities and followed that up with an invasion of the Suez Canal Zone. British and French intervention shocked the Eisenhower Administration, which had not been consulted....<sup>144</sup>

The U.S., blindsided by these actions, quickly sought to bring an end to the hostilities. “The effect on [the U.S.] government of this sudden and unexpected British and French move and of the actual opening of hostilities against Egypt was catastrophic. The British government had been told over and over again at the highest levels that [the U.S.] would do everything possible to avoid the use of force, and for force to be used without any warning came as a profound shock.”<sup>145</sup>

In response to the aggression, the U.S. chose to use economic pressure against the U.K., France and Israel. It was in a position to do so effectively as, in the years following the Second World War, it was the dominant economic power on the planet.

The Second World War had damaged the economic infrastructure of France and Britain, while the U.S. remained mostly unscathed. U.S. money, material and manpower was deployed to Europe after the war to rebuild both the victorious and the vanquished nations. The U.S. bought large amounts of government debt from the U.K. and France, and loaned money to Israel, which gave it a foundation from which to launch an economic counter.

[T]he United States brought extensive political and economic pressure to bear on Britain and France, curtailing oil exports and obstructing their access to loans from the United States and multilateral institutions. The financially strapped and militarily overextended Western Europeans were forced into a humiliating retreat that clearly demonstrated the reality of their post-World War II decline from great power status. As British Prime Minister Anthony Eden noted, the debacle at Suez “had not so much changed our fortunes as revealed realities.”<sup>146</sup>

The U.S. was able to act as it did due to the debt situation of the British and French governments. We have seen how indebted nations in the past were forced to allow foreign creditors to take over the collection of taxes and duties or gain possession of valuable resources or get market exclusivity for imports and exports. In all these cases, the large sovereign debt burden led to a partial loss of sovereignty on the part of the debtor nation.

The lessons of the Suez Crisis continue to hold relevance today.

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<sup>144</sup> Duckenfield, *Fiscal Fetters: The Economic Imperatives of National Security in a Time of Austerity*, p. 53

<sup>145</sup> Aldrich, *The Suez Crisis, a Footnote to History*, p. 547

<sup>146</sup> Duckenfield, *Fiscal Fetters: The Economic Imperatives of National Security in a Time of Austerity*, p. 53-54

“Adm. Michael Mullen, the former chairman of the [U.S.] joint chiefs, argued in multiple public appearances that “the most significant threat to our national sovereignty is our debt....[T]he strength and the support and the resources that our military uses are directly related to the health of our economy over time.” Even after the August 2011 debt deal Mullen still had great concerns about the debt. His successor, Gen. Martin Dempsey, while not placing the debt as the primary security threat, agrees with his predecessor that “the national debt is a grave concern.”<sup>147</sup>

The events of 1956 are an example of how one nation, holding a large amount of foreign debt, can use that as leverage to impose its will on the political leaders of the debtor nation. The 1956 Suez Crisis is an extreme example of the way a creditor nation can control the political destiny of the debtor. But it serves as a reminder that, as the Bible teaches, “The debtor is a slave to the lender.”

History offers many examples<sup>148</sup> of nations that have experienced severe repercussions from the procurement of too much government debt. As mentioned, the excess debt may not have been the proximate cause of a crisis, but its existence would act as a handicap to national leaders who sought to respond to such crises. This should be a sobering thought for contemporary politicians and government officials who continue to procure record amounts of debt with no plan to reduce their national debt.

Debt changes relationships and creates an imbalance between borrower and lender. In the past, this shift in power has led to loss of land, revenue and sovereignty. In the recent past, the debt crises in Greece, Ireland and other European nations led to a loss of political and economic power. Countries were made to adopt austerity programs, which saw those nations plunge into economic misery and resulted in higher unemployment, declines in property values and cuts to social services.

The 20th century has seen many more debt crises than just the Newfoundland and Suez Crisis examples given above. The following chapter will discuss in greater detail the debt problems faced by the world’s poorest, most highly indebted nations, along with the problems which have arisen in the world’s most developed countries as they expanded their borrowings.

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<sup>147</sup> Ibid, p. 40

<sup>148</sup> And cautionary tales

## Chapter Four

### 20<sup>th</sup> Century Debt

In earlier times, most of the world's governments eschewed generating large amounts of debt, save to deal with extreme circumstances. These attitudes changed over the course of the 20<sup>th</sup> century, as new circumstances and new ideas caused politicians to rethink how they could use the tool which is government debt.

In *Balanced Budgets, Fiscal Responsibility and the Constitution*, the authors wrote "Someone born in the post-depression era would regard deficit financing as normal budget practice. Yet until the Great Depression, the balanced budget, save in wartime or recession, was considered part of our "unwritten constitution." Thomas Jefferson warned that 'the public debt is the greatest of dangers to be feared by a Republican government,' and proposed the idea of a balanced budget amendment as early as Sept. 6, 1789."<sup>149</sup>

They also said "Looking back, we can see the Truman and Eisenhower years as an interregnum that separated the former period of general opposition to budget deficits from the post-1960 period epitomized by budget deficits under all circumstances."<sup>150</sup>

The introduction of social security programs, greater spending on social safety nets, education and a wider range of government activities in general resulted in governments growing larger. The cost of modern warfare, which grew dramatically as the size of conflicts grew, also added to the size of government expenditures.

Tribute and reparation have been imposed upon defeated nations by the victors since time immemorial, and the 20<sup>th</sup> century was no exception. Reparations imposed upon the German government and her allies following World War I followed the reparations France was forced to pay after the Franco-Prussian War. The victor nations also saw that the debt generated to repay the reparations would hamper any effort by Germany to rearm, as well as provide *causus belli* in the event Germany's ambitions needed to be stifled.

These factors, along with changes in economic and political thought, combined to drive a change in the ideas and attitudes surrounding government debt, resulting in more borrowing and large debt obligations.

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<sup>149</sup> Wagner and Tollison, *Balanced Budgets, Fiscal Responsibility and the Constitution*, p. 62

<sup>150</sup> Ibid, p. 6



## World War I

The nations involved in the First World War were forced to extend their borrowing in order to finance their military actions. The U.K., to name just one country, saw its debt to GDP ratio rise dramatically during the war and in the years following. As the table shows, even 20-plus years after the end of hostilities, the U.K. still had an elevated debt to GDP ratio.

| U.K. Debt to GDP | (All data from <a href="http://imf.org/external/datamapper">imf.org/external/datamapper</a> ) |
|------------------|---|
| Year             | Debt to GDP   |
|                  |   |
| 1914             | 22.27%  |
| 1918             | 119.1%  |
| 1929             | 170.52%   |
| 1939             | 148.68%   |

Similarly, the U.S. saw its debt to GDP ratio rise during the war, although it was able to reduce the number somewhat until the onset of the Great Depression. The sheer amount of U.S. debt continued to rise while hostilities continued, although that number also declined in the decade following the Armistice. In 1914, the U.S. national debt stood at \$2.912 billion. On July 1, 1917, it was \$5.717 billion, and on July 1, 1918, it stood at \$14.592 billion. Even after the war ended, the number continued to rise, reaching \$27.39 billion on July 1, 1919.<sup>151</sup>

| U.S. Debt to GDP | (All data from <a href="http://imf.org/external/datamapper">imf.org/external/datamapper</a> ) |
|------------------|---|
| Year             | Debt to GDP   |
|                  |   |
| 1914             | 3.47%   |
| 1918             | 18.64%  |
| 1929             | 16.3%   |
| 1939             | 43.96%  |

At the close of the First World War, the consensus among the victorious nations was that Germany and her allies should be made to bear the cost of the war, and further, should be forced to pay indemnities to punish them for starting the war in the first place.

The end result was disastrous for Germany, for Europe and for the globe. Prophetically, John Maynard Keynes wrote in *Economic Consequences of the Peace* “I believe that the

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<sup>151</sup> U.S. government debt figures are from [https://www.treasurydirect.gov/govt/reports/pd/histdebt/histdebt\\_histo3.htm](https://www.treasurydirect.gov/govt/reports/pd/histdebt/histdebt_histo3.htm)

campaign for securing out of Germany the general costs of the war was one of the most serious acts of political unwisdom for which our statesmen have ever been responsible.”<sup>152</sup>

Even among the victor states, the war had wrought changes to long-held economic and social norms. The First World War marked a watershed in the history of public debt. The material needs of modern warfare were so great, governments across the world were forced to call upon every resource to maintain a fighting army in the field. The cost of fighting the war forced wholesale changes to the very nature of money. “With the democratization of gold, the character of money had changed radically and, from the point of view of the government, expedientially. Paper money requires no mining and in theory is infinitely expandable.”<sup>153</sup>

The Great War forced governments to expand their revenue streams far beyond taxes, tariffs and fees, and to enter wholesale into the selling of bonds. Further, where past bond drives would target only the richest in society, the First World War brought about what writer James Grant called “a democratization of credit.” Both government officials and the public at large became more comfortable with the ideas of widespread borrowing and deficit spending.

“[Before World War I] the population of bond-buying Americans was estimated at only 350,000, and experts warned the Treasury not to try to raise more than \$500 million in the first Liberty Loan. Instead, the government pointed for \$2 billion, and four million new members of the credit class subscribed for more than \$3 billion.”<sup>154</sup>

Just as the First World War “marked a great divide in American credit,”<sup>155</sup> so it was with Great Britain. Loan drives appealed to the loyalty of the King’s subjects, and workers who had hitherto never considered buying bonds and investing were being asked to part with some of their salary to support the war effort.

It was not only attitudes toward debt that were changing, however. Central bankers and politicians, driven by necessity, began to realize they could manipulate a currency to maximize the impact of a bond drive and the inflow of ready capital it produced.

As honest writers took up propaganda work, the Bank of England inflated the British currency. For instance, it staged purchases of government bonds in the open market in the days leading up to public sales. The Federal Reserve system also picked up this trick – when the loan

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<sup>152</sup> *Economic Consequences of the Peace*, John Maynard Keynes, Kypros Press, 2017, Kindle edition, location 1351

<sup>153</sup> *Money of the Mind: Borrowing and Lending in America From the Civil War to Michael Milken*, James Grant, Farrar Strauss Giroux, New York, 1992, p. 154

<sup>154</sup> *Ibid*, p. 147

<sup>155</sup> *Ibid*, p. 145

was closed, the Federal Reserve would deal its bonds back into the market. Worse things were done on the home front, of course, and the cost of the deception was not unbearably large. The significance of these wheel greasing maneuvers was that they marked the end of the pre-war monetary order. They set the moral and financial tone for the successor systems of the 1920s and the even more makeshift monetary system that followed the next World War.<sup>156</sup>

As in the U.S. and the U.K., in France and in the other great powers involved in the war, so it was in Germany. As the cost of the war grew, the government began to rely on inflation and other practices to maximize the impact of bond drives, taxation and other fund raising.

Coupled with this spending was the idea that victory in the war would enable the victors to lay the full cost of the conflict on the backs of the defeated.

Thus, governments calculated their costs with little or no regard for potential repayments, expecting full costs to be borne by the losers. As late as 1916, when the certainty of victory was already being tinged with a shade of doubt in the minds of the Germans, their government was still holding out the prospect that the allies would be forced to pay an indemnity sufficient to wipe out the entire German debt of 1914, besides footing the bill for the war expenses. On the other side, when the Germans began to give way before the last desperate drive of the Allies, now reinforced by the Americans, the Allied statesmen exalted in the

thought that not only was victory near but the Germans were going to be assessed such a fine as greatly to lighten the debt burden of the conquerors.<sup>157</sup>

Defeat in the war led to ruin for Germany's currency. But the decline of the mark began well before the Versailles conference and well before the victorious powers began to make demands for reparation and penalties. After the war, that decline began to accelerate dramatically.

The mark's fall began gradually. In the war years 1914-1918, its foreign exchange value halved and by August 1919, it had halved again. In early 1920, however, although the cost of living had risen less than nine times since 1914, the mark had only 1/40<sup>th</sup> of its overseas purchasing power left. There followed 12 months of nervous fluctuation, but then the mark sped downwards with gathering momentum, dragging social misery and political disruption in its wake. Not until 1923 did Germany's currency at last go over the cliff-edge of sanity, to which it had, as it were, clung for many months with slipping fingertips.<sup>158</sup>

Just as the war's inflation cut the value of the mark, so it did to the currency of nearly every European country. Thus, "[I]n October 1920, Germany's national debt stood at 287,000 million marks. At the old 1914 parities, this sum equaled 14,400 million British pounds; but at

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<sup>156</sup> Ibid, p. 187

<sup>157</sup> A World in Debt, Freeman Tilden, Funk and Wagnalls Co., New York, 1936, p. 255-6

<sup>158</sup> Ferguson, When Money Dies, p. 1

the new it represented only 1,200 million British pounds. A year before Germany's great inflation is thought to have started, Germany's national debt had all but been wiped out.<sup>159</sup>

### **Debt Between the Wars, Europe**

In the years following the First World War, governments sought to reduce the debt forced upon them by the cost of modern warfare.

"The First World War left the allies with debts owing to each other totaling about \$26.5 billion, mostly owed to the United States and United Kingdom, with France as the main debtor. In addition, the Reparations Commissions in 1921 required Germany to pay \$33 billion."<sup>160</sup>

France looked to the promised reparations and indemnities from Germany to help balance its books. The expectations of the French government that Germany would make good on its obligations were quickly dashed. Whether through an inability to pay or the decision to refuse making payments, Germany's action left the French to face their post-war obligations without the expected flow of funds from the defeated power.

French budgetary policy and the course of the franc exchange rate can be explained by the French attitude to Germany – '*le Boche paie*' (Jerry will pay). The French political conflict could at first be disguised by running a massive budget deficit which was to be financed by German reparations. Only when those expectations became obviously unrealistic in the second half of 1922 was there unusual volatility of the franc exchange rate, apparently unjustified by consideration of relative purchasing power.<sup>161</sup>

In an effort to force reparation payments, or at least to punish the recalcitrant Germans, the French sent troops into Germany's industrial Ruhr region. "The Germans reacted by proclaiming a general strike (passive resistance), which they financed with yet more paper money."<sup>162</sup>

World opinion ran strongly against the French action. When France's troops entered the Ruhr, "Lloyd George's opinion, strongly to be supported by the events of the summer, was that its true motive was to set up a Rhineland confederacy friendly to France."<sup>163</sup> At the same time

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<sup>159</sup> Ibid, p. 34

<sup>160</sup> Foreman-Peck, *A History of the World Economy: International Economic Relations Since 1850*, p. 236

<sup>161</sup> Ibid p. 230-1

<sup>162</sup> Ferguson, *The Ascent of Money*, p. 104

<sup>163</sup> Ferguson, *When Money Dies*, p. 123

France was dunning the Germans and the Germans were ignoring the French demands, the U.K. was striving to hold its position as the world's dominant economic power, hoping to restore the pre-War Gold Standard, which saw London as the financial capital of the world and the pound sterling its primary currency. "The years 1880-1913 constitute the greatest era of laissez-faire in world economic history, the reign of the classical gold standard in which governments around the globe had allowed an unprecedented degree of economic activity within and between themselves to be regulated by the market driven transfer of gold claims across borders (the physical stuff just shifted around in central bank vaults.)"<sup>164</sup>

To finance the cost of modern warfare, the U.K., similar to every other major combatant, was forced to decouple their currency from the Gold Standard, essentially allowing it to float. As a result, and again, similar to every other major combatant, inflation took hold. As Ferguson points out "Much sooner, and to a greater extent than in Britain, the German and Austrian authorities had to turn to their federal banks for short-term funding. The growth of the volume of treasury bills in the central banks' hands was a harbinger of inflation because, unlike the sale of bonds to the public, exchanging the bills for banknotes increased the money supply."<sup>165</sup>

While the defeated powers and France owed money to the U.K., the U.K. was in debt to the United States and saw its cross-ocean rival rising to become the preeminent economic power on the globe. The political class in the U.K., unaccustomed to running deficits, was unsure how to proceed. With the war ended, their constituents expected an end to the high war tax rates, although the government still needed to pay down that war debt.<sup>166</sup> Hampered as they were by the desire to return to the pre-War Gold Standard and to the U.K.'s position as the world's preeminent economic power, they set themselves no easy task.

As is often the case, political considerations went hand-in-hand with economic concerns. A memorandum dated Aug. 1921, which was prepared by Edwin Montagu, the Secretary of State for India, stated

The fact of the matter is, in my view, that the government is likely to be confronted with a very difficult political situation if it believes that the country is really interested in economy and expenditure. The county is only interested in economy and expenditure if by means of this economy there can be a reduction of taxation. If it be found that all the talk of waste and anti-waste

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<sup>164</sup> The Battle of Bretton Woods, Benn Steil, Princeton University Press, Princeton and Oxford, 2013, p. 20

<sup>165</sup> Ascent of Money, p. 102

<sup>166</sup> The U.K. finally retired its World War I debt in March of 2015. (UK Finally Finishes Paying for World War I, <https://www.cnbc.com/2015/03/09/uk-finally-finishes-paying-for-world-war-i.html>)

and economy ends in a deficit which must be met with new taxation or even in the maintenance of taxation at its present level, we shall have gained no new political strength for all the steps that we have taken or are taking; on the contrary, the disappointment will be all the greater because of the irritation of those who have been forced to abandon projects, on which they had set their hearts, without receiving as a result any improvement in the financial position of the country as realized in a lightening of the burden of taxation.<sup>167</sup>

In contrast to France's treatment of the defeated Germans, the U.K. government decided to behave, if not with leniency, at least with a more realistic attitude toward their former foe. "The British had suggested canceling all war debts. When the U.S. turned this down, Balfour stated in 1922 that Britain had no choice but to collect the debts owed to her, but would do so only to the limits of the British debt to the United States."<sup>168</sup>

A combination of factors, including France repatriating gold from the U.K., repayments to the U.S., deflation and unemployment and, finally, the Great Depression, forced the U.K. to give up its hopes of restoring a pre-War status quo and drop the Gold Standard.

On Sept. 21, 1931, the British Cabinet released a press notice in which they informed the public that "it has become necessary to suspend for the time being the operation of Subsection (2) of Section 1 of the Gold Standard Act of 1925 which requires the bank to sell gold at a fixed price." The announcement went on to reveal that "Since the middle of July, funds amounting to more than 200 million pounds have been withdrawn from the London market," adding "During the last few days, the withdrawals of foreign balances have accelerated so sharply that His Majesty's government have felt bound to take the decisions mentioned above." At the time the announcement was made, the gold holdings at the Bank of England had diminished to an amount worth about 130 million pounds.<sup>169</sup>

The government of the U.K., in one fell swoop, separated the value of their nation's currency from any concrete base. While it enabled the government to halt the outflow of gold from the Bank of England, it also precipitated the issuance of a fiat currency and all that entails.

It has been argued by some that exiting the gold standard enabled politicians and government officials to more easily engage in deficit spending and debt accumulation. "Viewed from the perspective of public choice, the critical attack on budget balance, both for Britain and

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<sup>167</sup> <http://filestore.nationalarchives.gov.uk/pdfs/small/cab-24-127-cp-3208.pdf>

<sup>168</sup> Foreman-Peck, p. 237

<sup>169</sup> <https://www.nationalarchives.gov.uk/wp-content/uploads/2014/03/t163-68-181.jpg>

the U.S.A., was the collapse of the gold exchange standard over the period 1931-34. The Gold Standard imposed a degree of fiscal as well as monetary discipline on democratically elected governments by denying the discretionary recourse to the printing press.”<sup>170</sup>

### **Debt Between the Wars, The Americas**

Spared the ravages of warfare at home, and supplier of arms to the Allies, foreign capital poured into the U.S. Further, although the U.S. sent thousands of troops to fight in Europe, American involvement in the war lasted about a year, whereas France, the U.K. and others had been fighting since 1914. Even so, the U.S. was left with its own debts to repay.

“The United States’ national debt increased sharply during the last war [World War I]. In spite of phenomenal debt retirements in the U.S. after 1921, the national debt in 1929 was still 1,470% above that of 1914. In France, the upward change during the same period was 1,220%; in the U.K., 1,160%’ in Italy 550%, and Japan 210%.”<sup>171</sup>

The period between the wars saw an increasingly comfortable attitude both U.S. consumers and politicians acquired in the 1920s toward accumulating debt. This is not to say attitudes changed overnight. There were many who recognized the potential danger from a government carrying excess debt. President Calvin Coolidge warned that the federal government’s debt “is a menace to our credit. It is the greatest weakness in our line of national defense. It is the largest obstacle in the path of our economic development. It should be retired as fast as possible under a system of reasonable taxation. This can only be done by continuing the policy of rigid government economy.”<sup>172</sup>

But this attitude was not shared by all. The influx of foreign wealth into the U.S. during the First World War, the rise in wages as war industries demanded workers, the idea that the U.S. was emerging as a leading economic engine in the world, all contributed to a loosening of people’s inhibitions regarding borrowing, credit and speculation.

World War I marked a great divide in American credit. As we have noticed before (and will have reason to observe again), the wheels of debt rarely grind at one speed for very long. The chances are that, at any given moment, it is becoming easier to get a loan or it’s becoming harder. In the 1920s, as in the 1980s, it was becoming easier. During the war, Americans lent patriotically

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<sup>170</sup>Buchanan, et. al., *Deficits*, p. 132

<sup>171</sup> Withers, *Our Mounting Government Debt*, p. 175

<sup>172</sup> *Address of President Coolidge Before the Union Club of Philadelphia*, New York Times, Nov. 18, 1927, p. 4

to their own government. After the war, they lent to foreign governments, not all of which would subsequently have the means to pay them back.<sup>173</sup>

This new ease of credit manifested itself in several ways – an increase in stock buying, especially on margin, in speculative ventures like the Florida land rush and in investments in bonds and other securities. The 1920s also saw Americans of all economic classes begin to invest in bonds issued by foreign governments, especially those in Latin America. A practice which was once confined to only the most sophisticated of investors was opened up to the everyman.

“The vast majority of American investors who purchased these issues were not familiar with the debt-record of most Latin American governments. They probably had little or no knowledge of the long history of Latin American defaults or the scandals in which British investment houses were involved in the 1820s and again in the late 1860s and early 1870s.”<sup>174</sup>

Defaults on these bonds began in 1931 and by the end of 1934, 14 republics had, in some form or another, defaulted.<sup>175</sup>

## **The Great Depression**

The Great Depression saw the gears of economic life grind to a halt. Businesses failed, banks went under, enormous amounts of paper wealth from the stock market and other investments vanished. To the masses of unemployed, to those who lost homes and farms, to the millions who suddenly lived in fear of tomorrow, it seemed capitalism had failed. “As the 1930s had discredited capitalism, so had it discredited market-focused economies. Instead of concentrating on how markets worked, economists emphasized the imperfections and failures of the market.”<sup>176</sup>

Questions of economic growth, stability and fairness fell by the wayside. Instead, the nations of the world were left grappling with how to create and sustain employment. In the U.S., in Germany and in the U.K., masses of suddenly unemployed men, angry and desperate and scared, presented a formidable problem for the powers that governed. Economic policies during the 1930s can be understood as a means to get enough jobs created for those who wanted work.

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<sup>173</sup> Grant, *Money of the Mind*, p. 145

<sup>174</sup> Rippey, ‘A Bond Selling Extravaganza of the 1920s,’ p. 238

<sup>175</sup> Ibid, p. 243

<sup>176</sup> Yergin and Stanislaw, *The Commanding Heights*, p. 60



Policies started in the 1930s, which ended up continuing for decades, “cannot be understood without grasping that unemployment was the central structural problem toward which all policies were to be geared.”<sup>177</sup>

In the U.S., for example, President Franklin Roosevelt introduced the Civilian Conservation Corps, the Works Progress Administration, the Tennessee Valley Authority and others, all designed to put money into the pockets of working men.<sup>178</sup> The question then arose of how to pay for these huge social programs which would ensure a job to all who wanted one.

The economic thought of John Maynard Keynes represented a major shift in ideas surrounding the purpose and place of government, especially regarding the government’s role in the economy. As previously mentioned, few nations engaged in prolonged deficit spending, bar war, natural disaster or economic collapse. This is not to say that governments of the past did not make foolish financial decisions, nor that they did not face the consequences of those decisions. Rather, it is to say regardless of their practices, most governments at the very least paid lip service to the ideas of economy, frugality, and the balanced budget.

The Great Depression changed that mindset. Just as governments had been forced to grapple with the increased cost of modern combat during the First World War, so they now had to address the immense costs of modern government during the economic collapse of the 1930s. During that decade, debt amassed by the U.S. government, and by governments around the globe, grew dramatically.

Keynes broke with the orthodox economic and political thought of his day, which held that deficit spending was to be employed only in dire emergency. Keynes suggested that a government could, when needed, run a debt to accelerate the flow of money and generate economic activity. Whether through the creation of government jobs or an increase in social welfare spending, the government would boost growth at times when the private sector was

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<sup>177</sup> Ibid, p 3

<sup>178</sup> These programs offered more than just money.

Catholic Social Teaching emphasizes the dignity of work “as the free activity of men.” (Centesimus Annus, 15). Work serves to bring men into common labour with his fellows, forging social bonds as they cooperate to earn their daily bread. Work enhances the dignity of a man; in work, he imitates his Creator.

unable to do so.<sup>179</sup> Keynes' economic thought gave cover to those who worked to expand the size and scope of government, especially in the democratic nations of the West.

Even such support as remained for the principle of budget balance was eroded by the writings of John Maynard Keynes and his disciples. The "paradox of thrift" was to expose the fallacy of extending household prudence to the economy at large. The concept of the "burdenless debt" was to consign classical fears of deficit financing to 40 years of political irrelevance. The thirst for "stabilization policy" was to force budgetary imbalance into a central role in the political process. Such ideas advanced quickly across the interventionist elite of the academy and government.<sup>180</sup>

To enable financing of the vast increase in government spending, the U.S., like the U.K., needed to lose the strict discipline on money supply fostered by the gold standard. Thus

The fraying relic of the gold-exchange standard that remained at the end of the 1920s had collapsed entirely by 1934. Britain, its inspiration and foundation in the 19<sup>th</sup> century, abandoned it with great reluctance and bitterness in September 1931. Twenty-five nations followed in short order. The U.S. refused to throw in the towel until April 1933, shortly after Roosevelt took office.<sup>181</sup>

In ditching the gold-exchange standard, Roosevelt also banned hoarding of the metal by private citizens, while mandating it at the national level. He signed an executive order on April 5 requiring all domestic coins, bullion and certificates to be delivered up to the Federal Reserve Bank and forbade its export. On June 5, Congress took the dramatic step of abrogating the gold payment claim in public and private contracts – a highly controversial step that was barely upheld in a 5-4 Supreme Court decision in February 1935.<sup>182</sup>

In 1928, the U.S. government reported debt of \$17.6 billion. In 1933, the debt had risen to \$22.5 billion, to \$27 billion in 1934, to \$28 billion in 1935 and to \$33 billion in 1936. This reflects, among other things, the cost of the Roosevelt administration's myriad New Deal programs.

This increase in spending was accompanied by the belief among many that the Great Depression had proved that modern capitalism was a failed system. "Capitalism was considered morally objectionable; it appealed to greed instead of idealism, it promoted inequality, it had failed the people and – to many – it had been responsible for the war."<sup>183</sup>

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<sup>179</sup> He also stipulated that when the economy recovered, the government should strive to rapidly pay down the debt accumulated.

<sup>180</sup> *Deficits*, James M. Buchanan, Charles K. Rowley and Robert D. Tollison, eds, Basil Blackwell Ltd., Oxford, U.K. and New York, 1986, p 6-7

<sup>181</sup> *The Battle of Bretton Woods*, p 24-25

<sup>182</sup> *Ibid*, p. 25

<sup>183</sup> *The Commanding Heights*, p. 4

Along with the belief that capitalism had failed was a weakening of the moral distaste for incurring debt that another would be forced to pay. Thus “the first constraint to go was the gold exchange standard, systemically weakened by the Federal Reserve system from the latter’s inception in 1913 and repudiated by President Roosevelt in 1933 as part of the New Deal.”<sup>184</sup>

“The second constraint to be significantly slackened was the moral resistance, inculcated especially by the Victorians, against the burdening of future generations with a rising national debt.”<sup>185</sup>

Once the decision was made, it became easy for politicians to justify their actions, bolstering their arguments with the ideas of Keynes and his followers.

“Prosperity in the national economy, not any particular rule or state of the government’s budget, was promoted as the overriding policy objective. And if the achievement and the maintenance of prosperity required deliberate creation of a budget deficit, who should be concerned? Deficits in the government budget, said the Keynesians, were indeed small price to pay for the blessings of high employment.”<sup>186</sup> The Keynesians argued “it was impossible to implement a transfer of cost or burden through time because government included all members of the community and, so long as public debt was internally owed, ‘we owe it to ourselves’.”<sup>187</sup>

These new justifications for raising debt provided cover for politicians to expand the scope and power of their governments. The public choice economist would be quick to add that many politicians would prefer to borrow and spend than to tax and spend. In this way, a politician can provide benefits to her constituents while postponing payments until after she leaves office. Once the Rubicon is crossed, it becomes more and more difficult to cross back and re-learn fiscal restraint. As James M. Buchanan pointed out

Once an ethical standard has been eroded, however, it is difficult to recapture, at least at the ethical level. This suggests the desirability of imposing an implicit restraint on the political process which requires the matching of expenditures with tax revenues except under exceptional circumstances. There is no reason to expect that politicians will impose such a restraint on themselves, or that it would be long maintained even if it were imposed.<sup>188</sup>

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<sup>184</sup> Deficits, p 5

<sup>185</sup> Ibid, p. 6

<sup>186</sup> Democracy in Deficit, p. 37

<sup>187</sup> Ibid, p. 35

<sup>188</sup> Deficits, p. 307

## Debt in World War II

The cost of financing the Second World War, as well as the reconstruction which followed, necessitated vast amounts of government borrowing and spending. Coming as it did in the wake of the Great Depression, the war forced governments to push their debt ever higher.

In 1942, the first full year of sending troops to fight the war, the U.S. national public debt was \$72 billion, from \$48 billion the year before. In 1943, it rose to \$136 billion, to \$201 billion in 1944 and in 1945 reached \$258 billion. Even after the war, the rise in debt continued. In 1946, the national debt stood at \$269 billion. It was \$257 in 1950, \$274 billion in 1955 and in 1960 was at \$286 billion.<sup>189</sup> From the end of the Second World War, although there have been some single years which saw a slight decline in the amount of U.S. debt, the trajectory of debt has been ever higher.

However, as the table below demonstrates, the percentage of debt to GDP was lower in the U.S., (and indeed in many nations) following the war and its expenditures. This reflects the fact that changes in economic activity alter the figures used to determine the debt to GDP ratio.

| U.S. Debt to GDP | (All data from <a href="http://imf.org/external/datamapper">imf.org/external/datamapper</a> ) |
|------------------|---|
| Year             | Debt to GDP   |
|                  |   |
| 1941             | 38.67%  |
| 1945             | 91.49%  |
| 1946             | 116%  |
| 1950             | 87.45%  |

Similarly, in the U.K., the debt to GDP ratio began to fall following the end of the war.

| U.K. Debt to GDP | (All data from <a href="http://imf.org/external/datamapper">imf.org/external/datamapper</a> ) |
|------------------|---|
| Year             | Debt to GDP   |
|                  |   |
| 1941             | 133.69%   |
| 1945             | 234.69%   |
| 1946             | 269.8%  |
| 1950             | 216.92%   |

As the table shows, the U.K. government's debt to GDP ratio was near 270% after the war. The ratio began to fall over the following decades, aided by a number of factors, to around

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<sup>189</sup> [treasurydirect.gov/govt/reports/pdf/histdebt/histdebt\\_histo3.htm](http://treasurydirect.gov/govt/reports/pdf/histdebt/histdebt_histo3.htm)

42% at the beginning of the 1980s. This fall came about in spite of the fact the national debt increased in nominal terms.

“Over the 30 years from 1946, national debt increased from GBP27 billion to GBP64 billion in nominal terms. The GBP37 billion increase was almost entirely due to the issuance of fresh debt to cover interest payments over the period, as successive governments ran a cumulative primary (i.e. non-interest) surplus of GBP7.6 billion over this period, averaging 1.6% of GDP a year. Both non-interest spending and receipts were broadly flat as a share of GDP over most of the 30 years.”<sup>190</sup>

In the U.K., as in the U.S. and other nations, inflation was among the factors which helped governments reduce the GDP to debt ratio following the war. In the U.K., for the 30 years 1946 to 1976, the interest rate on government debt was lower than the inflation rate in 24 of those years.

The persistence of these negative real interest rates in part reflected ‘financial repression’ – in other words, that the interest rates at which the government could borrow were held below inflation by a number of institutional and policy factors. Among them was the Bretton Woods system, which featured restrictive exchange rate controls and a fixed exchange rate. Quantity and price controls on domestic bank lending also encouraged domestic financial institutions to invest in government debt.<sup>191</sup>

In their dealings with the defeated powers, the victorious Allies seem to have learned the lessons of Versailles and, instead of harsh and punitive monetary reparations aimed at their defeated foes, took much of their spoils in the form of machinery, intellectual property and labour. This is not to say no monetary demands were made of the vanquished, but rather that such demands were by no means as harsh and humiliating as those made after World War I.

Still, the cost of repayment was hampering the development of the battered nations, especially Germany. In February of 1953, Germanys’ debtors met in London and agreed to a deal which cut German debt in half, from 30 billion deutschemarks to 15 billion. This agreement came after German representatives successfully convinced the group that, although its foreign debt was only 25% of national income, the need for foreign currency to pay for reconstruction costs would cause “debt payments [to] sharply rise in the near future, and this would significantly hinder reconstruction.”<sup>192</sup> Germany’s great economic post-war recovery would

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<sup>190</sup> U.K. Office for Budget Responsibility, [obr.uk/box/post-world-war-two-debt-reduction](http://obr.uk/box/post-world-war-two-debt-reduction)

<sup>191</sup> Ibid

<sup>192</sup> [jubileedebt.org.uk/report/europe-cancelled-germanys-debt-1953](http://jubileedebt.org.uk/report/europe-cancelled-germanys-debt-1953)

likely not have been possible had it not been for this act of largesse on the part of the victorious powers.<sup>193</sup>

A shadow of Keynes' thought can be seen in these decisions. After World War I, in *Economic Consequences of the Peace*, he argued against making harsh reparation demands of the defeated Germans. He warned that punitive and humiliating reparations could backfire, causing social and political upheaval.

### **After The War**

The end of the war saw the creation of the International Monetary Fund and the World Bank, two institutions which emerged from the Bretton Woods Conference. Held near the end of World War II, in the U.S. state of New Hampshire, the conference's aim was to devise an international post-war monetary system.

Reacting to the conditions during the Great Depression, which saw monetary cooperation between nations fail, the founders of the IMF envisioned "an institution charged with overseeing the international monetary system – the system of exchange rates and international payments that enable countries and their citizens to buy goods and services from each other."<sup>194</sup>

The World Bank was created to offer loans to countries which found themselves unable to secure commercial loans, and initially concentrated its efforts on nations rebuilding from the ravages of the Second World War. The World Bank's inaugural loan was made to France, which used the money on post-war construction projects. "The World Bank stepped into this role because the developing countries could not mobilize sufficient domestic savings to get such projects done. Foreign investors could not count on a sufficient rate of return to be attracted to such projects. Moreover, foreign capital was not very welcome during this era of 'nation-building.'"<sup>195</sup>

In the 1970s, the Bank switched its focus and began to direct its efforts to the eradication of poverty.

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<sup>193</sup> Some might argue that one reason for this act of largesse was to keep West Germany from moving toward the Soviet sphere of influence.

<sup>194</sup> [Imf.org/external/about/histcoop.html](http://Imf.org/external/about/histcoop.html)

<sup>195</sup> *Commanding Heights*, p. 61

In the 1980s, the bank continued to enlarge its focus on issues of social development. Issues of social life, including education, communications, cultural heritage and good governance came to the fore. As a result of this expanding purview, Bank staff, who had originally consisted of engineers, economists and financial analysts, had, by the early 1980s, come to include experts from a variety of disciplines, including economists, public policy experts, sectoral experts and social scientists.<sup>196</sup>

The system enacted after the Bretton Woods meetings managed to foster a relatively stable world economy for the next 25 years. There were few banking crises, foreign exchange rates were stable and the system, which rested on gold and the U.S. dollar, enabled the nations of the world to rebuild after the war and to further their physical and economic development.

By the middle of the 1960s, it was obvious that the Bretton Woods system, at least as it related to the U.S. dollar, was beginning to fray. The U.S. used its currency's unique position to help engender economic growth on a scale never seen before. American money flowed around the world, helping to rebuild Europe and Japan and stimulating growth across the developing world. At the same time, American economic growth and, subsequently, its standard of living, continued to rise. But this rise in growth was accompanied by a rise in the size and scope of government. More and more government programs were formed and bureaucratic departments grew larger as agencies expanded the parameters of their missions. "The New Deal had irreversibly extended government obligations with its rhetoric and its creation of new administrative branches, through the process of 'delegation' of authority."<sup>197</sup>

These legacies of the New Deal envisioned these new programs as permanent and far-reaching. Whereas many of Roosevelt's programs had been seen as temporary measures, which were sometimes altered and ended, the new vision was for government to take a larger and more active<sup>198</sup> role in the lives of its citizens. Hoping to avoid a repeat of the mass joblessness which caused such misery during the Great Depression, U.S. lawmakers proposed a Full Employment Act, which would utilize the resources of the government to ensure that any able-bodied man who wanted to work would have a job.

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<sup>196</sup> [worldbank.org/en/about/archives/history](http://worldbank.org/en/about/archives/history)

<sup>197</sup> *Commanding Heights*, p. 40

<sup>198</sup> Some would say intrusive

In the end, the Full Employment Act was transferred into merely the Employment Act and was passed in 1946, loaded down with the very conditional and convoluted promise only that government would “use all practicable means consistent with its needs and obligations and other considerations of national policy ... to further promote ... conditions under which there will be afforded useful employment for those able, willing and seeking to work.”<sup>199</sup>

The U.K. sought after World War II to build a “cradle-to-grave” welfare system to enhance the well-being of its subjects. In 1942, the U.K. government published a report, “Social Insurance and Allied Services,” more popularly known as the Beveridge Report.

The report called for a comprehensive system of social insurance ‘from cradle to grave.’ It proposed that all working people should pay a weekly contribution to the state. In return, benefits would be paid to the unemployed, the sick, the retired and the widowed.

The U.K. passed the National Insurance Act in 1946, to create social insurance for the unemployed, the sick and for maternity. Pension benefits funded by employers, employees and the government were established. And the National Health Service Act, which took effect in 1948, ensured that no one would go without health care.<sup>200</sup>

The following years saw growth in the U.K. economy. The country’s standard of living, so negatively impacted by the Second World War, began to rise.

In post-War France, Jean Monnet, working for the government, devised a plan which sought to quickly reestablish industry, concentrating especially on markets which had previously been served by German industry. “By concentrating on six basic sectors of the economy<sup>201</sup>, the plan aimed to replace the products of German heavy industry in Germany and markets formerly supplied by Germany.”<sup>202</sup>

Germany’s economic miracle, jump-started as it was by the forgiveness of half that country’s wartime debts, took the form of *ordoliberalism*. The German government after the war took the deliberate step to craft a system which reflected the idea that government oversight would serve, not to plan the economy, but to ensure the fruits of the system were more justly distributed.

Unlike the circumstances existing after World War I, when the only familiar economic systems were wartime organization and the then practiced variant of a liberal market order, the

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<sup>199</sup> Ibid, p. 39

<sup>200</sup> [nationalarchives.gov.uk/pathways/citizenship/brave\\_new\\_world/welfare.htm](http://nationalarchives.gov.uk/pathways/citizenship/brave_new_world/welfare.htm)

<sup>201</sup> These six sectors were coal, electricity, steel, cement, agriculture and railways.

<sup>202</sup> Resolving the Paradox of the Monnet Plan: National and International Planning in French Reconstruction, Frances M.B. Lynch, *The Economic History Review*, Vol. 37, No. 2 (May 1984) p. 232



situation some 25 years later was marked by the availability of abundant fresh experience with which to analyze the impact of the various economic systems of daily life.

Clearly, more attention was devoted in Germany to the various opportunities for arranging economic and social life than in the Anglo-Saxon world, where the influence of Keynes and the post-Keynesians led to acceptance of the view that the most significant issue for a peacetime economy was to maintain full employment.<sup>203</sup>

The German plan envisioned a market economy, but one which would be tempered by “a strong state and a strong social morality.”<sup>204</sup>

Central planning and government control of economic sectors was carried out in India, in Japan, in Singapore and across Africa and Latin America. The Soviet Union and Communist China pursued central planning as a main tenet of Communism.

Many looked to these countries as harbingers of the future. The situation was such that in 1969, a scholar could write

Economic planning has assumed pivotal significance in all walks of national life. It is the hallmark of the mid-20<sup>th</sup> century civilization of mankind. It transcends all ideological barriers, and devotees of all systems of governments and ideologies realize the necessity of planning. In the capitalist, socialist and communist states, in developed and developing countries, people are convinced about the fact that without proper manipulation of economic and sociological resources their progress in the acute and intensely competitive world would be retarded.<sup>205</sup>

A decade later, central planning had been largely discredited across the globe, and governments in the West began to dismantle the mechanisms of state control over the economy. As the free market Capitalism of the late 19<sup>th</sup> and early 20<sup>th</sup> century was questioned in the wake of depression and war, so too were questions raised about the desirability of central planning.

The cause was inflation. The inability of central planning to credibly control price increases was a major flaw whose ramifications spread worldwide. Reliance on government planning and the desire for a vigorous system of social spending began to fray as the world became more affluent.

Throughout the 1960s, inflationary tendencies crept upward in the mixed economies, but never to the point of causing serious alarm. However, by the early 1970s, inflationary pressures

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<sup>203</sup> Watrin, *The Principles of the Social Market Economy and its Origins and Early History*, p. 410

<sup>204</sup> Yergin and Stanislaw, *Commanding Heights*, p. 16

<sup>205</sup> Ali, *Economic Planning in France 1945-1965: A Brief Review*, p. 51

were becoming more pronounced and visible. The tools governments had used to muddle through – to sustain consumer demand, to match inflation with wage increases – were now inadequate. Keynesian demand management assumed that low unemployment and a low, managed risk of inflation, was a sustainable combination. That proved wrong.<sup>206</sup>

By the end of the 1960s, the dollar was under pressure, as demand for the currency, tied as it was to U.S. gold reserves, threatened to outstrip supply.

The United States could not simultaneously keep the world adequately supplied with dollars and sustain the large gold reserves required by its gold-convertibility commitments. In fact, no country could perform such a feat with its national currency. The logic was laid bare by the Belgian-born economist Robert Triffin in his now-famous 1959 congressional testimony. There were, he explained, “absurdities associated with the use of national currencies as international reserves.” It constituted a “built-in destabilizer” in the world monetary system. The December 1958 European Convertibility pledges, far from representing the final critical step into a new monetary era, “merely return[ed] the world to the unorganized and nationalistic gold exchange standard of the late 1920s.”

When the world accumulated dollars as reserves, rather than gold, it put the U.S. in an impossible position. Foreigners lend the excess dollars back to the U.S. This increases U.S. short-term liabilities, which implies that the U.S. should boost its gold reserves to maintain its convertibility. But that’s the rub: if it does so, the global dollar “shortage” persists; if it doesn’t, the U.S. ultimately winds up hopelessly trying to guarantee more and more dollars with less and less gold. There is no stable, durable circumstance in which the U.S. can emit enough dollars to satisfy the world’s trading needs and few enough to ensure that they can always be redeemed for a fixed amount of gold. The U.S. is ultimately damned if it meets the world’s liquidity requirements and damned if it doesn’t – as is the rest of the world. This became known as the “Triffin dilemma.”<sup>207</sup>

The desire for dollars was driven, in large part, by the costs of rebuilding Europe and Asia after World War II, and by the desires of less developed nations in Africa, Asia and Latin America to accelerate their development in the post-Colonial era and raise living standards to a level with the West. “For the development economy, the urgent drive was to accelerate – not wait on what was thought to be a one-hundred-year cycle, but rather to see what could be achieved in a decade.”<sup>208</sup>

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<sup>206</sup> Yergin and Stanislaw, *Commanding Heights*, p. 110-11

<sup>207</sup> Steil, *The Battle of Bretton Woods*, p. 333

<sup>208</sup> Yergin and Stanislaw, *Commanding Heights*, p. 58

Amid this demand for dollars, the U.S. debt burden began to grow. After remaining relatively stable throughout the decade of the 1950s, the U.S. began to add to its debt as it increased military activity in Vietnam while pursuing increased social spending at home.

As the table below shows, even as the nominal amount of U.S. debt was rising, the debt to GDP ratio was lower.<sup>209</sup>

| Year | Dollar Amount of Debt            | Debt to GDP Ratio |
|------|----------------------------------|-------------------|
| 1950 | \$257,357,352,351.04             | 78.2%             |
| 1955 | \$274,374,222,802.62             | 59.52%            |
| 1960 | \$286,330,760,848.37             | 48.84%            |
| 1965 | \$317,273,898,983.64             | 40.28%            |
| 1970 | \$370,918,706,949.93             | 32.59%            |
| 1975 | \$533,189,000,000 <sup>210</sup> | 31.08%            |

The pressure to provide dollars in the face of the demands caused by inflation, reconstruction and development led the U.S. to search for a means to alleviate their present and potential currency problems. Meanwhile, the demand for U.S. gold increased. In January 1965, for example, the amount of gold taken from the U.S. government equaled \$263 million, twice the amount of all gold sales in 1964. By the end of that year, \$1.66 billion in gold flowed out of the U.S., with almost half going to France.<sup>211</sup>

One large issue preventing politicians from attacking inflation vigorously was fear that any action to curtail inflation might result in the loss of jobs. Tightening the money supply and withdrawing liquidity from markets could, it was feared, result in high unemployment. Nevertheless, the gold problem was real and recognized, and U.S. lawmakers continued to cast about for answers.

France sent a warship to take home French gold from the New York Fed's vaults. Debate in Washington over how to respond was heated. Nixon opted for what Connelly convinced him would be seen as a bold and decisive move. On August 15, 1971, the President went on national television to announce his new economic policy. In addition to tax cuts, a 90-day wage and price

<sup>209</sup> Nominal amounts are from [https://www.treasurydirect.gov/govt/reports/pd/histdebt/histdebt\\_histo4.htm](https://www.treasurydirect.gov/govt/reports/pd/histdebt/histdebt_histo4.htm), and debt to GDP ratio are from [https://www.imf.org/external/datamapper/CG\\_DEBT\\_GDP@GDD/USA](https://www.imf.org/external/datamapper/CG_DEBT_GDP@GDD/USA)

<sup>210</sup> Figure rounded to millions, as per

[https://www.treasurydirect.gov/govt/reports/pd/histdebt/histdebt\\_histo4.htm](https://www.treasurydirect.gov/govt/reports/pd/histdebt/histdebt_histo4.htm)

<sup>211</sup> Meltzer, *Origins of the Great Inflation*, p.159

freeze and a 10% import surcharge, the gold window would be closed – the U.S. would no longer redeem foreign government dollar holdings.<sup>212</sup>

Uncoupled from the restraint of a physical anchor, the number of U.S. dollars available began to expand. An additional problem was the inflationary pressure created by the Arab oil embargo of 1973. These two events resulted in a vast transfer of wealth from the U.S. to the oil producing countries of the world. The inflationary pressures created at this time led to spiraling price increases and higher unemployment in the U.S. and Europe. At the same time, holders of U.S. dollars overseas were seeking some investment which would generate a rate of return that could keep pace with the rising levels of inflation.

#### The oil-price shocks

...created current account deficits in many Latin American countries. At the same time, these shocks created current account surpluses among oil exporting countries. With the encouragement of the U.S. government, large U.S. money-center banks were willing intermediaries between the two groups, providing the exporting countries with a safe, liquid place for their funds and then lending those funds to Latin America.”<sup>213</sup>

The unprecedented influx of funds wrought major change in the nations receiving the money. Where before, international groups such as the IMF kept a close eye on the use of development funds, the new loans, issued by private, for-profit banks, came with no constraints on their use. “To the Third World president or finance ministers,” Federal Reserve Chairman Paul Volcker observed afterwards, “International banking in the 1970s” was “like receiving a credit card in the mail – with three or four more zeroes on the size of the credit line.”<sup>214</sup>

The easily available debt to the world’s poorest nations was scooped up by countries eager to develop their economies and improve the standard of living of their citizens. Add to this the increased interdependence of economies which came about after the Second World War and which was accelerated by new technologies. All these factors and more came together to create a new outlook on the uses and desirability of government debt.

This borrowing was encouraged by the world’s largest banks, who arranged the loans and received a fee for their services.

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<sup>212</sup> Steil, *Battle of Bretton Woods*, p. 337

<sup>213</sup> Sims and Romero, ‘*Latin American Debt Crisis of the 1980s*’

<sup>214</sup> Yergin and Stanislaw, *Commanding Heights*, p. 113

The huge payment imbalances of the mid-1970s and early 1980s meant, in effect, that oil producers had surplus revenues to invest abroad while oil consumers needed substantial financing. Between these surplus and deficit states stood the major commercial banks, operating in the virtually unregulated Euromarkets. By accepting massive short-term deposits (many from oil producers,) and making medium-term loans (many from oil consumers), these banks “recycled petrodollar surpluses.”<sup>215</sup>

The business was so lucrative that by the late 1970s, some of the largest banks were getting 50% or more of their operating earnings from these international activities.<sup>216</sup>

To be clear, many of the loans made during these years were properly used and promptly repaid. But these remained countries who overleveraged, and who, hurt by the decline in commodity prices in the 1980s, found themselves burdened with untenable debt payments.

The 20th century saw many of the world’s nations adopting changes to long-held attitudes about the creation and use of government debt. Where there was once a reluctance to borrow and accumulate large amounts of debt, and to borrow only in extreme circumstances, the century past saw governments borrowing on a regular basis to finance their basic expenditures rather than just extraordinary programs. The wars of the 20<sup>th</sup> century drove borrowing as well, and created a new class of government debt holders, as bonds were marketed and sold to workers, both blue and white collar, who had hitherto never been asked to buy such instruments.

These changes in attitude and outlook created new opportunities, but also new pitfalls, for the nations of the world. The moral discussion surrounding the right use of debt also changed, to reflect the new circumstances emerging in the world, especially the plight of the poorest nations who were bearing the burden of too much debt.

These debt crises also saw a new and vigorous response – led, in large part, by the Catholic Church and Catholic thinkers – to address the problems faced by the world’s poorest and most-indebted nations. The next chapter will explore some of those problems and responses and will begin to explore how the theological and moral response to debt in the last decades of the 20<sup>th</sup> century can be applied to debt problems in the 21<sup>st</sup>.

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<sup>215</sup>Lipson, *International Organization of Third World Debt*, p. 605

<sup>216</sup> Ibid

## **Chapter Five**

### **Responses to the Debt Crisis**

The debt crises in Africa, Latin America and Asia in the 1970s, 1980s and 1990s spawned a response regarding government debt which was hitherto unseen. Reacting to the suffering which resulted from nations grappling with too much debt, many bishops, theologians, and politicians, among many others, crafted statements which called for debt reduction and relief as a means to alleviate that suffering. Several called attention to the actions of the government officials who sought out and transacted these debts and of those on the other side of the transaction who approved the loans.

“Widening awareness of the debt problem was due in large part to the efforts of a growing but loosely organized network of NGOs and church-affiliated relief organizations that began to coalesce in the mid-to-late 1980s. This network gained momentum in 1990 when the All-African Council of Churches called for a year of jubilee to cancel Africa’s debt.”<sup>217</sup>

These developing world crises led to a widespread examination of government debt by the Church. Prior discussions about debt had mainly concerned the proper development of nations and people. The theological arguments promulgated in the latter part of the 20<sup>th</sup> century, while expressing concern about development, emphasized the suffering of those in highly indebted countries and argued for debt relief to alleviate that suffering. This chapter will examine how the theological response evolved in the last decades of the 20<sup>th</sup> century. Subsequent chapters will apply those insights, developed with poor and lesser developed countries in mind, to the world’s more developed and more prosperous nations.

### **Latin America’s “Lost Decade”**

In Latin America, the economies of nations grew with the rising price of commodities. Coffee from Brazil, copper from Chile, beef and wheat from Argentina, all these materials experienced price rises as inflation spread across the globe. The rising commodity prices led to

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<sup>217</sup> Lysaught, “*Roman Catholic Teaching on International Debt: Toward a New Methodology for Catholic Social Ethics and Moral Theology.*”

governments being offered more credit from international banks, which led to more debt, which led to more borrowing to service the cost of that debt.

Following the Second General Conference of Latin American Bishops in 1968<sup>218</sup>, the participants said the continent stood at an historic crossroad. In his opening statements, Juan Landazuri Ricketts, the Cardinal Archbishop of Lima and Primate of Peru, said “We all agree on the necessity of rapid and profound transformations. The choice lies in the means of implementing this urgent task. An abnormal situation prevails in Latin America, where the dignity of the human person is ignored and where the great masses still await the sign of their redemption.”<sup>219</sup>

Calling upon the Church to remember its mission to bring the message of the Gospel to the poor, one speaker said

Today, the implication of lack of material goods in the word poor is heavily stressed. That is to say, it is repeated that the Church has to be the Church of those deprived of the goods of fortune. That is true but it is not the whole story.

The word poor in the Scriptural sense has a broader and deeper meaning. In addition to lack of material goods it connotes a sense of complete availability and confident abandonment into the hands of God. It is the attitude of Our Lady at the time of the Annunciation.

In our pastoral work, I believe we need to interpret the word poor in a broader sense without restricting ourselves exclusively to those lacking material goods, but including those who live in a state of religious poverty and spiritual misery even though they be not totally deprived of material wealth. We are referring to the great mass of the Christian people.<sup>220</sup>

Following the Medellin Conference “the bishops gathered at Medellin committed the Latin American Church to be a poor Church which denounces material poverty and the sin that begets it, which preaches and lives in spiritual poverty, an attitude of spiritual childhood and openness to God, and which is bound in commitment to and solidarity with the poor in their problems and struggles.”<sup>221</sup>

Concern for the poor and a desire to improve the conditions under which they lived gave rise to a movement which came to be known as “Liberation Theology.” Promulgated by

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<sup>218</sup> Also known as the Medellin Conference

<sup>219</sup> Ricketts, *‘Inaugural Address,’* p. 22

<sup>220</sup> Henriquez, *‘Pastoral Care for the Masses and the Elites,’* p. 185

<sup>221</sup> Litonjua, *International Development Economics and the Ethics of the Preferential Option for the Poor’*, M.D. Litonjua, p. 90

theologians including Gustavo Gutiérrez, Leonardo Boff and Clodovis Boff, the movement first took root in Latin America before spreading across the globe. Clodovis Boff described the “theology of liberation” as “the precise articulation of what the Christian base communities already practice in what may be called a spontaneous way: the confrontation of concrete practice with the Gospel. Thus, the ‘theology of liberation’ is a critical reflection about our situation, in the light of the word of God. This theology intends to answer this question: ‘What does it mean to be a Christian in a poor and divided world, such as our Latin American world is today?’”<sup>222</sup>

While discussing the “theology of liberation,” Boff cited Aquinas as an example. He called Aquinas “‘a political theologian’ in his time, as the ‘theologians of liberation’ are today.”<sup>223</sup> Further, he said “St. Thomas is an *example* (original italics) for ‘theology of liberation,’ insofar as he confronted the cultural challenge of his time, Aristotelianism, in the interest of faith, and did it in an exemplary manner. His work is a model for the theologians of liberation, confronting their own cultural challenges, especially the challenge of the rationalistic analysis of society.”<sup>224</sup>

Gutiérrez, in his work *A Theology of Liberation*, wrote

The theology of liberation attempts to reflect on the experience and meaning of the faith based on the commitment to abolish injustice and build a new society; this theology must be verified by the practice of that commitment, by active, effective participation in the struggle which the exploited social classes have undertaken against their oppressors. Liberation from every form of exploitation, the possibility of a more human and dignified life, the creation of a new humankind – all pass through this struggle.<sup>225</sup>

A reaction against Liberation Theology came about as certain proponents began to mix ideas drawn from Marxism into their theology. In “Instruction on Certain Aspects of the ‘Theology of Liberation,’” the Congregation for the Doctrine of Faith wrote it wanted to “draw the attention of pastors, theologians, and all the faithful to the deviations, and risks of deviations, damaging to the faith and to Christian living, that are brought about by certain forms of liberation theology which use, in insufficiently critical manner, concepts borrowed from various currents of Marxist thought.”<sup>226</sup>

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<sup>222</sup> Boff, *St. Thomas Aquinas and the Theology of Liberation: A letter to a young theological student*, p. 459 s

<sup>223</sup> Ibid

<sup>224</sup> Ibid

<sup>225</sup> Gutiérrez, *A Theology of Liberation*, p. 174

<sup>226</sup> *Instruction on Certain Aspects of the ‘Theology of Liberation*, introduction



The instruction said “In revealing to them their vocation as children of God, the Gospel has elicited in the hearts of mankind a demand and a positive will for a peaceful and just fraternal life in which everyone will find respect and the conditions for spiritual as well as natural development.”<sup>227</sup> Further, it stated “Consequently, mankind will no longer passively submit to crushing poverty with its effects of death, disease and decline. He resents this misery as an intolerable violation of his native dignity. Many factors, and among them certainly the leaven of the Gospel, have contributed to an awakening of the consciousness of the oppressed.”<sup>228</sup>

While the Congregation showed sympathy for the plight of the poor, it was critical of certain trends which it detected among some proponents of Liberation Theology. The instruction read “the question no longer has to do with simply drawing attention to the consequences and political implications of the truths of faith, which are respected beforehand for their transcendent value. In this new system, every affirmation of faith or of theology is subordinated to a political criterion, which in turn depends on the class struggle, the driving force of history.”<sup>229</sup>

The Congregation also criticized “concepts uncritically borrowed from Marxist ideology and recourse to theses of a biblical hermeneutic marked by rationalism are at the basis of the new interpretation which is corrupting whatever was authentic in the generous initial commitment on behalf of the poor.”<sup>230</sup>

In the first half of the 1970s, the policies pursued by Mexican President Luis Echeverria raised the government’s expenditure dramatically. He sought to redistribute wealth and raised government expenditures. Public expenditure as a percentage of GDP rose to 37.9% in 1976, from 24.6% at the start of the decade. When he took office in 1970, Echeverria had a foreign debt of around \$4 billion. Six years later, it was \$20 billion.<sup>231</sup>

However, “as Mexico’s economic crisis deepened after 1982, rising political unrest – from labour, peasants, university students, intellectuals and even from the usually quiescent middle class – has threatened the legitimacy of the prevailing political order.”<sup>232</sup>

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<sup>227</sup> Ibid, Part 1, Sec. 3

<sup>228</sup> Ibid, Part 1, Sec. 4

<sup>229</sup> Ibid, Part 9, Sec. 6

<sup>230</sup> Ibid, Part 6, Sec. 10

<sup>231</sup> Ibid, p. 166-7

<sup>232</sup> Ibid, p. 164

The recession of 1981-82 saw world commodity prices shrink, as efforts by the U.S. government to tame inflation slowed economic growth and demand for materials. Suddenly, the Latin American nations which had enjoyed the benefits of borrowing found themselves over-leveraged and struggling to pay their debts.

Owing primarily to interest payments on an external debt of \$418 billion, Latin America [was] forced to generate net outflows of roughly \$30 billion per annum in 1982-86. The net transfer of resources out of the region during the four years 1982 to 1986 amounted to \$112 billion in the form of excess net interest over net capital inflows. In the decade 1977 to 1986, there was a total net inflow of external funds of \$273 billion, of which \$220.8 billion was commercial bank borrowing. Over the same period, the sum paid on public debt was \$294 billion.<sup>233</sup>

The result was a drastic cutback in the activities of government, especially in the social sphere. Countries cut subsidies to the poor and dramatically reduced the size of the social safety net. In Mexico, for instance “... after 1976, and especially after 1979, the expansion of the public foreign debt was an explicit policy of state managers, who saw their dilemma as primarily a political one of restoring business confidence, strengthening popular support and responding to a specific set of state interests.”<sup>234</sup>

The situation in Mexico became so bad that “had it not been for a then-record bailout by the IMF and the U.S. government (in 1985), in all likelihood Mexico would have faced default on its sovereign debt.”<sup>235</sup>

Mexico wasn't the only country to suffer from the effects of having taken on too much debt. Argentina defaulted on its external debt in 1982 and also experienced a large-scale default on its internal debt in 1989.<sup>236</sup> Brazil was forced to seek help from the IMF in the late 1970s, as it found itself unable to deal with the amount of foreign debt on its books. After the Mexican crisis of 1982, Brazil again had to resort to the offices of the IMF to handle its debt. Mexico's troubles set off a contagion across Latin America, as fearful bankers and investors began to drain money out of countries before they became the next to threaten default.

To cite just some examples, between 1976 and 1984, capital flight from Venezuela equaled \$30 billion, from Argentina \$25 billion, from Brazil \$17 billion and from Mexico \$53

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<sup>233</sup> Levitt, *'Linkage & Vulnerability: The 'Debt Crisis' in Latin America and Africa,'* p. 16

<sup>234</sup> Teichman, *'The Politics of the Mexican Debt Crisis,'* p. 164

<sup>235</sup> Reinhart and Rogoff, *This Time is Different,* p. 108

<sup>236</sup> Ibid, p. 111

billion.<sup>237</sup> The crisis struck a region that was saturated with government debt. In 1970, “total outstanding debt from all sources totaled only \$29 billion, but by the end of 1978, that number had skyrocketed to \$159 billion. By 1982, the debt level reached \$327 billion.”<sup>238</sup>

Governments across the region were forced to devote less and less money to social spending and more to servicing their debt. Subsidies and welfare services were reduced, making life harder for the poorest and most vulnerable. Growth in the region was almost non-existent.

“The Latin American Debt Crisis resulted in the well-known lost decade for the region, during which initial fiscal readjustments and austerity did little but reinforce anemic growth. Currency devaluation, an emphasis on trade expansion and eventually debt restructuring though what was known as the Brady Plan helped the countries in the region regain strength and return to economic growth.”<sup>239</sup>

#### The Brady Plan

...changed the direction of U.S. policies on Third World indebtedness. The new initiative, announced by Treasury Secretary Nicholas Brady in March 1989, calls on U.S. commercial banks to accept an orderly process of debt reduction, and calls on the international financial institutions – the International Monetary Fund and the World Bank – to support this process in their lending policies. The plan implicitly recognizes that many debtor countries will be unable to repay their commercial bank debts in full, even if repayment is stretched out over time. The focus on cutting the debt burden contrasts sharply with earlier Treasury policies, under both Donald Regan and James Baker, which had held that eventually all of the commercial bank debt should be repaid on market terms.<sup>240</sup>

#### Under the Brady Plan

...banks were given incentives to make concessions on their loans to Latin American governments. The idea was to encourage banks to swap their loans for bonds that would lighten the countries' debt burden. The bonds would carry “enhancements” – guarantees of interest for a year or two and a guarantee of ultimate repayment – to encourage the banks to switch. The guarantees were U.S. Treasury Bonds bought by the borrowing country and placed in escrow accounts – to be released to the bond holder in the case of a default.<sup>241</sup>

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<sup>237</sup> Levitt, *Linkage & Vulnerability: The 'Debt Crisis' in Latin America and Africa*, p. 42

<sup>238</sup> Sims and Romero, *Latin American Debt Crisis of the 1980s*

<sup>239</sup> Arias and Restrepo-Echavarría, *Sovereign Debt Crisis in Europe Recalls the Lost Decade in Latin America*

<sup>240</sup> Sachs, *Making the Brady Plan Work*, p. 87

<sup>241</sup> Fidler, *Eyeing the Brady Plan as a Model for Greece*,

Recognition of the inadvisability and, in some cases, the impossibility of forcing full repayment of debts from these Latin American nations led the first Bush administration to sign off on the Brady Plan. This easing of debt payments helped the indebted countries to begin emerging from the debt hole in which they found themselves.

### **Africa's Debt Crisis**

In a manner similar to Latin America, the nations of Africa, and especially the sub-Saharan nations, found ready access to debt markets in the 1960s and 1970s that had hitherto been closed to them.

Like many nations in Latin America, these African nations found themselves unable to service the debt they took on, leading to economic distress and social suffering. In the end, programs such as the Highly Indebted Poor Country, or HIPC, were put into place to allow nations deeply in debt some breathing room on repayments.

The events that led to HIPC and the Multilateral Debt Relief Initiative (MDRI) started in the 1960s from public spending sprees by recently independent countries to stimulate their economies through rapid investment in industry and infrastructure projects. Commodity booms and heavy use of external debt supported this spending as policy leaders relied on future export earnings and economic growth to improve their capacity to service the debt. Notably, these countries did not reduce expenditures during negative commodity shocks and instead took on more loans.<sup>242</sup>

Though the circumstances under which the nations of Africa acquired their debt were similar to those in Latin America, the response across the world was more pronounced.

In Africa, the debt crisis was driven by “the 1980s global recession, the rise in interest rates in developed countries and a decline in real net capital inflows, which was largely due to the real negative interest rates in many countries.” This resulted in the external debt-to-gross national income ratios across the continent rising “from 49% in 1980 to 104% in 1987.”<sup>243</sup>

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<sup>242</sup> Onyekwena and Ekeruche, *‘Is a Debt Crisis Looming in Africa?’* a

<sup>243</sup> Ibid

The situation continued to be grave as the century drew to a close. To cite some numbers:<sup>244</sup>

Central government debt as a percentage of GDP in Malawi in 1990 stood at 53.56%. By 2000 it had risen to 86.55%. In 1990, Burkina Faso's was 28.79%, rising to 61.99% by 1994. Chad in 1990 had central government debt as a percentage of GDP at 27.79%, but by 1995 the number had risen to 53.35% and by 2000 it reached 67.98%.

Senegal's figures were 63.28% in 1990 and 94.68% in 1994. In Sierra Leone, the figures were 123.28% in 1990 and 168.62% in 1994, and in Togo the numbers were 69.32% in 1990 and 122.36% in 1994.

The story was the same across much of the developing world. The response, however, was unlike anything seen before. Africa was the focus of numerous news stories in the 1980s. Stories of famine threatening lives touched the conscience of those in the west. Through the efforts on musician Bob Geldorf, among many others, the world's attention was drawn to the plight of those suffering, leading to benefit concerts, charity singles and massive relief efforts.

The widespread media coverage and the approach of a new millennium led to more and more voices calling for debt relief for the poor nations in Africa and Latin America and Asia. The Catholic Church, aid agencies, world governments and organizations including the United Nations joined together to develop methods to bring relief to those nations suffering the most from the burden of foreign debt.

### **The Right to Develop**

The Church teaches that all nations have a right to develop, that the wealthier nations of the world have a duty to assist the less wealthy and that anything which hampers proper development is unjust, including the problem of repaying unsustainable debt. This reflects the Church's belief in the universal destination of goods, in a preferential option for the poor and its understanding of solidarity and subsidiarity.

Writing in *Mater et Magistra*, John XXIII said

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<sup>244</sup> All the following figures were accessed from the imf.org website

Probably the most difficult problem today concerns the relationship between political communities that are economically advanced and those in the process of development. Whereas the standard of living is high in the former, the latter are subject to extreme poverty. The solidarity which binds all men together as members of a common family makes it impossible for wealthy nations to look with indifference upon hunger, misery and poverty of other nations whose citizens are unable to enjoy even elementary human rights. The nations of the world are becoming more and more dependent on one another and it will not be possible to preserve a lasting peace so long as glaring economic and social imbalances persist. (*Mater et Magistra*, 157)

He also points out

Individual political communities may indeed enjoy a high degree of culture and civilization. They may have a large and industrious population, an advanced economic structure, great natural resources and extensive territories. Yet, even so, in isolation from the rest of the world they are quite incapable of finding an adequate solution to their major problems. The nations, therefore, must work with each other for their mutual development and perfection. They can only help themselves in so far as they succeed in helping another. That is why international understanding and cooperation are so necessary. (*Mater et Magistra*, 202)

Here, the Pope speaks to the Catholic understanding of solidarity, which calls for the nations and peoples of the world to work together for the betterment of all. At the same time, the world's nations must be aware of the idea of subsidiarity, which "sets limits for state intervention. It aims at harmonizing the relationships between individuals and societies. It tends toward the establishment of true international order." (*Catechism of the Catholic Church*, 1885)

As John XXIII wrote

The developing nations, obviously, have certain unmistakable characteristics of their own, resulting from the nature of the particular region and natural disposition of their citizens with their time-honored traditions and customs. In helping these nations, therefore, the more advanced communities must recognize and respect this individuality. They must beware of making the assistance they give an excuse for forcing these people into their own national mold. (*Mater et Magistra*, 169-170)

He said such actions threaten world peace and added "Necessity, therefore, and justice demand that all such technical and financial aid be given without thought of domination, but rather for the purpose of helping the less developed nations to achieve their own economic and social growth." (*Mater et Magistra*, 173) But the Holy Father also said, "those nations still at the beginning of their journey along the road to economic development would do well to consider carefully the experiences of the wealthier regions which have traversed this road before them." (*Mater et Magistra*, 167)

In *Pacem in Terris*, he echoed the idea that every nation has the right to properly develop. He wrote “each of them accordingly has the right to exist, to develop and to possess the necessary means and accept a primary responsibility for its own development.” (*Pacem in Terris*, 86) He added “... some nations may have attained to a superior degree of scientific culture and economic development. But this does not entitle them to exert unjust political domination over other nations. It means they have to make a greater contribution to the common cause of social progress.” (*Pacem in Terris*, 88)

St. John XXIII’s successor, St. Paul VI, devoted the encyclical *Populorum Progressio* to the development of people. In it, he wrote

The progressive development of peoples is an object of deep interest and concern to the Church. This is particularly true in the case of those peoples who are trying to escape the ravages of poverty, endemic disease and ignorance; of those who are seeking a larger share in the benefits of civilization and a more active improvement in their human qualities; of those who are consciously striving for fuller growth. (*Populorum Progressio*, 1)

He stresses that the concerns of the Church are based on the idea of solidarity and a desire to alleviate suffering when he writes “it is most important for people to understand and appreciate that the social question ties all men together in every part of the world.” He added “the hungry nations of the world cry out to the people blessed with abundance. And the Church, cut to the quick by this cry, asks each and every man to hear his brother’s plea and answer it lovingly.” (*Populorum Progressio*, 3)

He also mentions in the encyclical the Church’s founding of the Pontifical Council on Justice and Peace in 1967.<sup>245</sup> The Council was called upon to “promote justice and peace in the world, in the light of the Gospel and the social teaching of the Church.”<sup>246</sup>

Paul VI said “The name of this commission, Justice and Peace, aptly describes its program and its goal. We are sure that all men of good will want to join our fellow Catholics and fellow Christians in carrying out this program. So today, we earnestly urge all men to pool their ideas and their activities for man’s complete development and the development of mankind. (*Populorum Progressio*, 5) But he also warned “The development we speak of here cannot be restricted to economic growth alone. To be authentic, it must be well rounded; it must follow the

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<sup>245</sup> Since assumed into the Dicastery for Promoting Integral Human Development in 2017

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[www.vatican.va/roman\\_curia/pontifical\\_councils/justpeace/documents/rc\\_pc\\_justpeace\\_pro\\_20011004\\_en.html](http://www.vatican.va/roman_curia/pontifical_councils/justpeace/documents/rc_pc_justpeace_pro_20011004_en.html)

development of each man and the whole man.” (*Populorum Progressio*, 14) Later in the encyclical, he says

Neither individuals nor nations should regard the possession of more and more goods as the ultimate objective. Every kind of progress is a two-edged sword. It is necessary if man is to grow as a human being; yet it can also enslave him, if he comes to regard it as the supreme good and cannot look beyond it. When this happens, men harden their hearts, shut out others from their minds and gather together solely for reasons of self-interest rather than friendship; dissension and disunity follow soon after. Thus, the exclusive pursuit of material possessions prevents man’s growth as a human person and stands in opposition to his true grandeur. Avarice, in individuals and in nations, is the most obvious form of stultified human development. (*Populorum Progressio*, 19)

He stresses the responsibility of the developing nations when he says they “... must choose wisely from among the things that are offered them. They must test and reject false values that would tarnish a truly human way of life, while accepting noble and useful values in order to develop them in their own distinctive way, along with their own indigenous heritage.” (*Populorum Progressio*, 41) He also wrote “At the same time, the world’s developed nations are called to practice mutual solidarity, social justice and universal charity in their relations with their less developed neighbors.” (*Populorum Progressio*, 44)

He called for dialogue between the world’s richer and poorer nations, saying it will ... permit a well-balanced assessment of the support to be provided, taking into consideration not only the generosity and the available wealth of the donor nations, but also the real needs of the receiving countries and the use to which the financial assistance can be put. Developing countries will thus no longer risk being overwhelmed by debts whose repayment swallows up the greater part of their gains. Rates of interest and times for repayment of the loan could be so arranged as not to be too big a burden on either party, taking into account free gifts, interest-free or low-interest loans and the time needed for liquidating the debts. (*Populorum Progressio*, 54)

### **Debt and Development**

As the world’s developing nations saw their economies affected by inflation and a decline in the price of the raw materials and commodities which they exported, the focus on proper development, which never went away, was overshadowed by the problems of their national debt. Having borrowed money to expand and develop, many of the world’s poorer nations, especially in sub-Saharan Africa, began to experience suffering on a large scale. As



mentioned, the famine in Ethiopia and other African nations drew the world's attention in the 1980s, bringing into clearer focus the experiences of these nations.

Many of the world's developed countries, in coordination with the International Monetary Funds, the World Bank and the U.S. Treasury Department, fostered the idea that the world's developing nations should adopt policies similar to those in richer countries. Dubbed "The Washington Consensus,"<sup>247</sup> these policies were "aimed at stabilization, liberalization and privatization."<sup>248</sup> Such reforms were "often imposed on developing countries as conditionality for debt relief and financial support."<sup>249</sup> However, in many of the nations which adopted these reforms, the resulting economic shock led to problems which included a reduction in government social expenditures and recession.

Theologians began to discuss the idea of debt relief as a means of alleviating the suffering of these nations and their people. Calls for debt relief were heard from a wide range of sources, both secular and religious. The Catholic Church, inspired by the Biblical teachings about the Jubilee Year, was one of the first proponents calling for mass debt relief and debt forgiveness. In a message to the United Nations in 1985, St. John Paul II told that body "debt servicing cannot be met at the price of the asphyxiation of a country's economy, and no government can morally demand of its people privations incompatible with human dignity."<sup>250</sup>

In 1986, the U.S. Conference of Catholic Bishops issued "*Economic Justice for All*," which explored economic issues, including the issue of debt, through the lens of Biblical and Catholic Social teaching. In it, the Bishops remarked that "From the patristic period to the present, the Church has affirmed that misuse of the world's resources or appropriation of them by a minority of the world's population betrays the gift of Creation, since whatever belongs to God belongs to all." (*Economic Justice for All*, 34)

They also said "The fundamental moral criteria for all economic decisions, policies and institutions is this: They must be at the service of all people, especially the poor." (*Economic Justice for All*, 24)

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<sup>247</sup> The IMF, World Bank and U.S. Treasury are all based in Washington, D.C.

<sup>248</sup> U.N. Economic and Social Council, *U.N. World Economic and Social Survey, 2017*, p. 50

<sup>249</sup> *Ibid*, p. 51

<sup>250</sup> Pope John Paul II, *Message to the United Nations, October 14 1985*

The bishops also pointed out “The aggregate external debt of the developing countries now approaches \$1 trillion, more than one-third of their combined GNP; this total doubled between 1979 and 1984, and continues to rise. On average, the first 20% of export earnings goes to service debt without significantly reducing the principal; in some countries debt service is nearly 100% of such earnings, leaving scant resources available for the countries’ development programs. (*Economic Justice for All*, 271)

In 1987, the Pontifical Commission *Justitia et Pax* issued “*At the Service of the Human Community: An Ethical Approach to the International Debt Question*,” which called for debt relief for the world’s poorest nations.

In the encyclical *Tertio Millennio Adveniente*, which was promulgated in 1994, St. John Paul II called for Christians around the world, in the spirit of the Book of Leviticus, to “raise their voices on behalf of the poor of the world, proposing the Jubilee as an appropriate time to give thought, among other things, to reducing substantially, if not canceling outright, the international debt which seriously threatens the future of many nations.” (*Tertio Millennio Adveniente*, 51)

The Pope’s call for debt relief and forgiveness, rooted in the teachings of Scripture and the Church’s tradition of a Preferential Option for the Poor, was echoed across the world. The bishops of New Zealand, in 1998, issued “*Debt: An Intolerable Burden*.” In 1998, the U.S. bishops released “*A Jubilee Call for Debt Forgiveness*,” and in 2000 Canada’s bishops called for more action to cancel the debts of the poorest nations. Calls for debt relief and forgiveness also came from bishops and churchmen in Africa and Latin America.

### **Aid for the Suffering**

Along with the work of the Catholic Church, other groups began to petition governments around the world to work toward relieving the debt burden on the world’s poor. Oxfam, for one, was active in calling for debt relief and debt forgiveness. In their summary of the policy paper “Africa: Oxfam Debt Statement, 4/23/97,” the group wrote “Debt problems are usually measured in terms of cold financial data. Public debate is discouraged by the obsessive secrecy of creditor governments and international financial institutions, and by impenetrable technical jargon. But behind this dense fog, the debt crisis wears a human face.”

They also wrote

The debt crisis facing the poorest countries has been dismissed too politely for too long. Such politeness implies a tacit acceptance of a situation which ought to be regarded as intolerable. Allowing debt to destroy the growing minds and bodies of young children, to undermine communities, and to further erode the position of the poor is the antithesis of civilized behavior. Nothing can justify it and it should not be tolerated.

Effective debt relief would provide the resources needed for a sustained assault on poverty improving prospects for child survival and human development across a large swathe of the developing world. It would also provide an opportunity for governments of the industrialized world to take their own rhetoric on poverty reduction seriously.<sup>251</sup>

In October of 1998, Seton Hall University in New Jersey hosted a conference on the ethical dimensions of international debt, which drew participation from church leaders, international financial organizations, universities, and non-governmental organizations among others. A summary of the conference noted “Churches and other institutions have taken on the debt question for two main reasons. The first is that the debt overhang poses a grave obstacle to development and the eradication of extreme poverty. The second is that the debt question is symbolic of a larger reality: the place of the poorest countries in the hierarchy of world politics and the international political economy.”<sup>252</sup>

The summary also said

Officials from debtor country governments, the churches and NGOs have long argued that the poorest segments of these countries’ populations have been disproportionately harmed by a.) the large percentage of export earnings and government budgets devoted to meeting the payment on the debt, with meagre resources left for education, health and other needed social services; and b.) certain elements of structural adjustment programs recommended – some would say imposed – by creditor governments and IFIs in conjunction with past debt rescheduling and reduction arrangements (e.g. cuts in food subsidies, public sector jobs and wages.)<sup>253</sup>

The summary also noted that the question of debt is a question of intergenerational justice, “the extent to which debt contracted and serviced today constrains or enhances the well-being and borrowing opportunities of future generations.”<sup>254</sup>

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<sup>251</sup> Africa: Oxfam Debt Statement, 4/23/97, accessed at [www.africa.upenn.edu/urgent\\_action/apic\\_042397.html](http://www.africa.upenn.edu/urgent_action/apic_042397.html)

<sup>252</sup> Donnelley, *Summary of Conference at Seton Hall on the Ethical Dimensions of International Debt*

<sup>253</sup> Ibid

<sup>254</sup> Ibid

In 1999, the Cooperation Internationale pour le Developpement et la Solidarite, or Cidse, and Caritas Internationalis released “Putting Life Before Debt,” in which they called for the “cancellation of the unpayable debt of the most impoverished countries by the year 2000.”<sup>255</sup> The two groups pointed out that “International debt also presents a moral challenge – the particular concern of the Church in addressing this problem – in how it affects the human dignity, human rights and human welfare of some of the most vulnerable men, women and children in the global community.”<sup>256</sup>

The Irish pop musician Bono, for one, sought to use his celebrity to bring greater visibility to the problem of poor countries grappling with big debt. In 1999, he met with Pope John Paul II, an event which brought the issue worldwide attention.

Where groups such as the Paris Club and the London Club had been formed among bankers and private lenders to discuss issues surrounding debt, and to sometimes offer debt restructuring or relief, now multinational bodies and non-governmental organizations also began to address the problem in a serious way. The International Bank for Reconstruction and Development and the World Bank’s International Development Agency launched a Debt-Reduction Facility in 1989, which allowed IDA countries to buy back debt at a steep discount.

In 2000, the United Nations set eight millennium development goals, which included the eradication of extreme hunger and poverty, universal primary education and a reduction in child mortality. These gave way, in 2015, to the organization’s sustainable development goals. Surrounding both sets of goals was the idea that the poorest nations needed relief from excess debt, which forced countries to spend money on debt service rather than developmental goals.

Concern over the debt and development of nations continued into the 21st century, especially following the financial crisis of 2008 and 2009 and the unprecedented rise of government debt which followed the spread of the COVID-19 virus.

In *Caritas in Veritate*, an encyclical promulgated in the wake of the financial crisis in 2009, Pope Benedict XVI wrote “The economic development that Paul VI hoped to see was meant to produce real growth, of benefit to everyone and genuinely sustainable.” But, “this same

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<sup>255</sup> Cidse and Caritas Internationalis, *Putting Life Before Debt*, p.1

<sup>256</sup> Ibid, p. 5-6

economic growth has been and continues to be weighed down by malfunctions and dramatic problems, highlighted even further by the current crisis.” (*Caritas in Veritate*, 21)

He added

The technical forces in play, the global interrelations, the damaging effects on the real economy of badly managed and largely speculative financial dealing, large-scale migration of peoples, often provoked by some particular circumstance and then given insufficient attention, the unregulated exploitation of the earth’s resources: all this leads us today to reflect on the measures that would be necessary to provide a solution to problems that are not only new in comparison to those addressed by Pope Paul VI, but also, and above all, of decisive impact upon the present and future good of humanity. (*Caritas in Veritate*, 21)

He continued by saying

The world’s wealth is growing in absolute terms, but inequalities are on the increase. In rich countries, new sectors of society are succumbing to poverty and new forms of poverty are emerging. In poorer areas some groups enjoy a sort of “superdevelopment” of a wasteful and consumerist kind which forms an unacceptable contrast with the ongoing situations of dehumanizing deprivation. (*Caritas in Veritate*, 22)

He also wrote “International aid has often been diverted from its proper ends, through irresponsible actions both within the chain of donors and within that of beneficiaries.” (*Caritas in Veritate*, 22)

The question of national debt and its impact upon the nations of the world has also been addressed, at great length, by Pope Francis. While the pontiff called for the world’s richest nations to come to the aid of the poorest, echoing his predecessors, he also called attention to the plight of the people in the world’s more developed nations who were struggling with the economic fallout of the financial crisis and the Covid-19 pandemic.

When Greece, a nation which had an already high deficit and debt, was struck by the economic effects of the Financial Crisis, its government was forced to impose an austerity regime upon the nation. Taxes went up, government services were reduced and unemployment soared. Responding to the suffering of the Greek people, Pope Francis called the economic and political situation in the country “worrying,” and asked the faithful to pray for Greece. At the time, he also

reminded the world “The dignity of the human person must remain at the center of any political and technical debate, as well as in the taking of responsible decisions.”<sup>257</sup>

Speaking to the United Nations in 2015, Pope Francis said

The need for greater equity is especially true in the case of those bodies with effective executive capability, such as the Security Council, the Financial Agencies and the groups or mechanisms specifically created to deal with economic crises. This will help limit every kind of abuse or usury, especially where developing countries are concerned. The International Financial Agencies should care for the sustainable development of countries and should ensure that they are not subjected to oppressive lending systems which, far from promoting progress, subject people to mechanisms which generate greater poverty, exclusion and dependence.<sup>258</sup>

Pope Francis also called attention to the situation in his native Argentina, which defaulted on its debt three times in the first two decades of the 20<sup>th</sup> century. During a 2020 meeting at the Vatican which included IMF officials and Argentina’s Economy Minister, the Pontiff said the world needed new forms of solidarity and added “we are not doomed to universal inequality.” He also said “Poor people in heavily indebted countries bear overwhelming tax burdens and cuts in social services as their governments pay debts contracted insensitively and unsustainably,” and added a nation’s debt policy “can become a factor that damages the social fabric.”<sup>259</sup>

At the meeting he also said, “We have to help developing countries to achieve debt sustainability, through coordinated policies which should finance debt and reschedule debt, in order to find a solution for the very indebted countries and to alleviate the suffering of people.”<sup>260</sup>

### **A Theology of Debt**

The widespread concern over how debt negatively affects the world’s poorest nations, which was articulated through the latter part of the 20<sup>th</sup> century and up to today, is unprecedented. The arguments and attitudes generated in the last century continue to influence

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<sup>257</sup> Cantilero, *‘Pope Francis on Greek debt crisis: ‘Human dignity must remain at centre of any debate,’*

<sup>258</sup> Meeting with members of the General Assembly of the United Nations Organization, 25 Sept. 2015, [https://www.vatican.va/content/francesco/en/speeches/2015/september/documents/papa-francesco\\_20150925\\_onu-visita.html](https://www.vatican.va/content/francesco/en/speeches/2015/september/documents/papa-francesco_20150925_onu-visita.html)

<sup>259</sup> Pullella, *‘IMF, Argentina and Pope Talk About Debt Crisis at Vatican Meeting,’* 1

<sup>260</sup> McElwee, *‘Pope Francis Gets Involved in Argentina’s Debt Relief,’*

the debate over how we should deal with the problems of a nation's debt burden today. Much of this thought can provide a foundation to explore contemporary debt problems.

Any discussion of the problems of modern debt should go beyond the desire to promote right development and to alleviate the suffering of individuals and examine other issues related to the matter. The discussion should also be extended beyond the problems of the world's poorest nations to include nations which are prosperous and developed. Much of the theology of the last half century surrounding government debt centered on the Church's ideas about proper development and a preferential option for the poor. It also concerned itself with the idea of a universal destination for all goods. While a discussion of government debt in a contemporary sense will be concerned with these issues, it should expand its focus and draw in other elements which have not received as much attention from theologians in the past.

For instance, little has been written about the role of the individual government official and his or her role in accumulating debt. When an official of any government agrees to borrow money, they create an obligation for another person. This is not a matter to be taken lightly. Yet we have seen over the past decades that many of the world's most developed nations continue to borrow and spend with seemingly little regard for how the debt will be repaid.

Any theology studying government debt should be prepared to examine that debt *ex ante*, to determine if it is just, right and needed. Whatever form it takes, some tool should be developed to help the individual involved in the debt transaction to determine if they can justly and morally borrow or lend. Such issues will be covered in greater detail in subsequent chapters.

In the past, questions were raised as to whether the debt accumulated in less prosperous nations served to aid the people, or whether it went to line the pockets of strongmen, dictators, and oligarchs. Some argued that debt which did not serve the needs of the people need not be repaid by those people. In the case of the world's democratically elected governments, where the people have a direct say as to who will represent them, it is difficult to make such an argument. The population derives an immediate benefit when their government borrows and spends, as the process serves to keep tax rates below where they otherwise would be. So, when looking at the contemporary problems of debt within prosperous, democratic nations, one must look at the actions of both elected officials and those who elected them. It is wrong for a people to continue

accumulating unnecessary debt with no intention of repaying it, but rather leaving that task to its progeny.

The accumulation of too much debt works to hamper the proper functioning of government. It is imprudent, then, for the world's nations to keep increasing their already large debt obligations, as this may, in the future, put them in a position where their government cannot perform necessary functions due to its debt burden.

The truths taught by the Church are eternal and meant for all men. While the truths are unchanged, how those truths are lived and expressed changes as time, place and circumstances change. The wisdom articulated during the developing world debt crises of the past is true and can help to guide one's thoughts when looking at the problems of the contemporary world. But it must also be acknowledged that solutions suggested in the past might not apply to contemporary situations. When a small nation in sub-Saharan Africa saw its debt burden becoming intolerable, theologians and people of good will suggested that perhaps debt reduction or debt forgiveness would go far to alleviating the suffering of a people. However, such solutions may not be applicable to the problems of debt in the U.S. or Japan, to name two. Both the size of the debt and the position of their economies might make the idea of debt forgiveness unworkable for these large, developed nations.

Different times and circumstances call for different solutions. To solve the debt crises which plagued nations like Spain, Ireland and Greece in the first part of the 21<sup>st</sup> century, austerity programs were enacted. Some, like the former Greek Minister of Finance, Yannis Varoufakis, claimed these programs were designed more to aid banks who had loaned money to these government and less to help these governments deal with their financial problems. Whether these claims are true or not, there is no arguing the fact that when nations in Europe adopted austerity regimes, unemployment rose, government benefits were reduced and people suffered. Presented with another example of human suffering created or exacerbated by the reality of too much government debt, a response should be crafted which is true to the teachings of the Church and which recognizes the obligations and defends the rights of all parties involved.

The next chapters will explore the morality of public debt in its modern context. The focus will not be the world's poorest nations, but rather those nations that are developed, democratic and plagued with high levels of debt and deficit. The focus will also expand to



examine the entire debt process, from its initial creation to the final repayment. The chapters will focus on the actions of lenders and borrowers, on the impact their actions have on individuals and on society, as well as upon themselves. They will examine the morality of creating a financial obligation and how the virtues of Prudence, Temperance, Fortitude and Justice can help to inform the conscience and decision-making of those involved in procuring and disbursing debt.

## Chapter Six

### Virtue and Government Debt

Observing the situation in so many highly-indebted, poor nations at the end of the last century, the response by the Church and others was weighted toward debt reduction, restructuring and, in certain cases, debt relief and forgiveness. These responses were greatly concerned with the material and spiritual well-being of the people in debtor nations, as well as with the material inequalities which were evident between the world's richest nations and its poorest. The theologians responding to the developing nation debt crises sought to encourage politicians, officials, and the people of richer nations to act with virtue, charity and love. These people were challenged to put a human face onto an economic transaction and to respond to that face in a spirit of love and solidarity.

Reflecting on the biblical ideal of jubilee, St. John Paul II said "The jubilee year was meant to restore equality among all the children of Israel, offering new possibilities to families which had lost their property and even their personal freedom." (*Tertio Millennio Adveniente*, 13) In 1999's *A Jubilee Call for Debt Forgiveness*, the U.S. Conference of Catholic Bishops wrote

For most Americans, debt means their mortgages, student loans, car loans, or credit card balances. For believers, debt cannot be mere numbers on a page or credit card bills. Debt is not simply about those things. It is about how people live and die *half a world away*. (author's italics.) It is about how children live and die half a world away. It is about poverty and people. It is about the kind of world we live in. Debt must become a call to action, an opportunity to stand up for the least of these, a chance to make a difference. (*A Jubilee Call for Debt Forgiveness*, conclusion)

Those living in developed and democratic nations today have no need to look "half a world away" to see the negative impact from too much government debt. People in those nations need only look to their neighbors, or to themselves, to see how lives are being affected. The suffering experienced by the people of Greece, Spain, Portugal and other nations in this century is evidence of that. Likewise, the impact of that debt on the young, and on generations not even born, must be considered as governments continue to borrow and amass debt.

This reflection and understanding can lead people of good will to take action to alleviate the suffering and other problems which emerge when a nation takes on too much debt. The action will take place in the halls of government and in the various bodies which make up society. The Catholic Church teaches that Church and the government both have their own

separate spheres of activity. However, there are areas where their activities can overlap as they address common concerns.

The earlier theological insights are weighted toward a type of *ex post facto* concern. For the most part, they addressed concerns which rose after debt deals were structured and found to be detrimental to the well-being of a nation. Examining the issues surrounding contemporary debt through the lens of this earlier theological understanding can help to glean insight into addressing the problem. At the same time, it is necessary to craft an understanding of government debt and its proper use in such a way that this theological understanding can be applied before the debt is incurred, in an effort to inform and guide those parties involved in the transaction.

A proper understanding of when and how a government can rightly incur debt, by both the borrower and the lender, will likely help to prevent a repeat of the problems which hampered societies in the past and which continue to hamper contemporary governments. A large part of that understanding is to realize the actions of individuals, working in the name of their governments, can have a major impact on the lives of the citizens they are called to serve. Those actions should be performed with a proper understanding of the purpose of the economy and of government. That understanding, in turn, should be informed with a knowledge of the Church's teaching on the matter, as well as the theologies developed during the crises of the 20th century.

### **A Leaven for Society**

At His ascension into Heaven, Jesus Christ charged His followers to “Go, therefore, make disciples of all nations; baptize them in the name of the Father, and of the Son, and of the Holy Spirit, and teach them to observe all the commands I gave you.” (*Matthew* 28: 19-20) His Church is called to act as a “leaven and as a kind of soul for human society.” (*Gaudium et Spes*, 40). The people of God are called to go forth and to bring the Good News of the Gospel to all realms of human life.<sup>261</sup>

At the same time, the Church teaches that all humans are “citizens” of two realms, the earthly and the heavenly. We are, as St. Paul wrote, “only strangers and nomads on earth.” (*Heb.* 11:13) In *Gaudium et Spes*, we read

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<sup>261</sup> Prof. William Toth of Seton Hall University told the author that to suggest there is some aspect of human activity which immune to the message of the Gospels is akin to engaging in idolatry.

This council exhorts Christians, as citizens of two cities, to strive to discharge their earthly duties conscientiously and in response to the Gospel spirit. They are mistaken who, knowing that we have no abiding city but seek one which is to come, think that they must therefore shirk their earthly responsibilities. For they are forgetting that by the faith itself they are more obliged than ever to measure up to those duties, each according to his proper vocation. Nor, on the contrary, are they any less wide of the mark who think that religion consists in acts of worship alone and in the discharge of certain moral obligations and who imagine they can plunge themselves into earthly affairs in such a way as to imply that they are altogether divorced from the religious life. (*Gaudium et Spes*, 43)

This is not to say, however, that the Church can operate outside her competencies in political matters. “Secular duties and activities belong properly, although not exclusively, to laymen. Therefore acting as citizens in the world, whether individually or socially, they will keep the laws proper to each discipline, and labour to equip themselves with a genuine expertise in various fields.” (*Gaudium et Spes*, 43) The believer is called to balance reason and revelation when judging a proper course of action. For others, reason, supported by the conscience, must suffice to enable them to make proper choices. To act virtuously is a conscious decision. Reason, aided by the conscience, helps to determine a right or wrong course of action. The Natural Law, which is established by reason and which is possessed by all men, helps to inform the conscience and is another tool which can assist in determining a proper course of action.

Natural Law “present in the heart of each man and established by reason is universal in its precepts and its authority extends to all men. It expresses the dignity of the person and determines the basis of his fundamental rights and duties.” (*Catechism of the Catholic Church*, 1956)

As St. John Paul II wrote in *Veritatis Splendor*, God created man and ordered man “with wisdom and love to his final end, through the law which is inscribed in his heart, the ‘Natural Law.’” (*Veritatis Splendor*, 12) St. Paul taught “For the ones that God will justify are not the ones who have heard the Law, but those who have kept the Law. So, when gentiles, not having the Law, still through their own innate sense behave as the Law commands, then, even though they have no Law, they are a law for themselves. They can demonstrate the effect of the Law engraved on their hearts, to which their own conscience bears witness....” (*Romans* 2: 13-15)<sup>262</sup>

The Natural Law, which is eternal and immutable

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<sup>262</sup> The believer is called to use the teaching of the Church (revelation) as well as the Natural law (reason) to educate the conscience and train it to do what is right. The Natural Law also acts as common ground between those who believe in God and those who do not. Even if one doesn't believe in God, God's law is still engraved in their heart. That Natural Law can serve as a starting point for discussions and mutual analysis.

provides the solid foundation on which men can build the structures of moral rules to guide his choices. It also provides the indispensable moral foundation for building the human community. Finally, it provides the necessary basis for the civil law, with which it is connected, whether by a reflection that draws conclusions from its principles, or by additions of a positive and juridical nature.” (*Catechism of the Catholic Church*, 401)

Heinrich Pesch argued that “Man is not merely an appendage of the material world in which he lives. He is also bound by moral obligations, and he must function with due regard for the people and the national community of which he, as an individual, is a part. In fact, the material welfare of nations is essentially conditioned by the practical application of the moral law and by the degree of morality that is operational in the economic life of the nation.”<sup>263</sup> Pesch pointed out that there are some who argue that moral laws are incompatible with political or economic progress. In reply, he stated “we represent a different point of view. Morality is compatible with every kind of *bona fide* technical and economic progress.” (original italics)

Humans are called, by God and by His Natural Law, to live virtuous lives as part of our ultimate end of eternal life in the Kingdom of God. All virtues are grouped around the four Cardinal Virtues of Prudence, Fortitude, Temperance, and Justice. The remainder of this chapter will concern itself with the practices of Prudence, Fortitude and Temperance as they relate to the actions of politicians and government officials, especially in the acquisition and dispersal of debt. The virtue of Justice will be the subject of the next chapter.

## **Prudence**

“Prudence is the virtue that disposes practical reason to discern our true good in every circumstance and to choose the right means of achieving it....”<sup>264</sup>

Prudence enables us to see the right course of action and the best means to achieve it. Aristotle said virtue “is an habitual disposition with respect to choice.”<sup>265</sup> Prudence is the virtue which helps us to discern our choices and to choose that which is best.

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<sup>263</sup> Pesch, *Ethics and the National Economy*, p. 37-8

<sup>264</sup> *Catechism of the Catholic Church*, 1806

<sup>265</sup> Wheelwright, *Aristotle*, p. 191

Prudence guides the conscience as it helps the intellect make proper choices and take proper actions. As pointed out in the Catechism of the Catholic Church, prudence is called “*auriga virtutum* (the charioteer of the virtues.)”<sup>266</sup>

As Aquinas said, the virtue of prudence doesn’t appoint an end to moral virtues, but rather regulates the means by which mankind can act virtuously. Therefore, while we look to revelation and reason to determine our proper end, we employ prudence to enable us to determine the right means to meet that end.<sup>267</sup>

All those with political responsibility are called to act with prudence, both personally and in matters concerning their office and the common good. Aquinas writes of “different species of prudence,”<sup>268</sup> corresponding to different ends. He also said, “Since it belongs to prudence rightly to counsel, judge and command concerning the means of obtaining a due end, it is evident that prudence regards not only the private good of individuals, but also the common good of the multitude.”<sup>269</sup>

Prudence is not only a necessary virtue for individuals,

...but it is also vital to the moral health of a larger community. Prudence is intelligence applied to our actions. It allows us to discuss what constitutes the common good in a given situation. Prudence requires a deliberate and reflective process that aids in the shaping of a community conscience. Prudence not only helps us identify the principles at stake in a given issue, but also moves us to adopt courses of action to protect the common good. Prudence is not, as popularly thought, simply a cautious and safe approach to decisions. Rather, it is a thoughtful, deliberate and reasoned basis for taking or avoiding action to achieve a moral good.<sup>270</sup>

As regarding government debt, it can be argued that continual borrowing and spending beyond a nation’s means runs counter to the spirit of prudence. A continual accumulation of debt with no plan for repayment, or with the expectation that it will be paid by progeny, is in direct contrast to the common good. While the fruits of borrowed money may be enjoyed now, the accumulation of large deficits, as has been shown, can create untenable economic and social situations which can lead to public unrest, a reduced standard of living and the possible dissolution of a government or nation. In the sense of prudence as being of a cautious nature, or

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<sup>266</sup> *Catechism of the Catholic Church*, 1806

<sup>267</sup> Aquinas, STh II-II, 47, a. 6

<sup>268</sup> Aquinas, STh II, Q. 47, a. 2

<sup>269</sup> Aquinas, STh II, Q. 47, a. 10

<sup>270</sup> U.S. Conference of Catholic Bishops, *Global Climate Change: A Plea for Dialogue, Prudence and the Common Good*, sec. Scientific Knowledge and the Virtue of Prudence

of anticipating future outcomes, this is true. But the Catholic Church's understanding of prudence extends beyond that.

The prudent politicians will be one who looks at a situation and honestly evaluates what is needed to solve any problems. Looking at a debt situation such as that of the U.S., which amassed over \$34 trillion in debt at the start of 2024<sup>271</sup>, the first step would be the acknowledge the scope of the problem. Difficult though it may be to discuss debt issues with constituents, a prudent politician will recognize that honest dialogue can breed trust.

It can and should be pointed out that a legitimate use of government debt is to fund infrastructure which can promote future prosperity. A prudent politician won't immediately shut down any possibility of investment, knowing that future income can help reduce a government's debt burden.

Prudent voters will need to acknowledge that certain steps, which may include increasing taxes or reducing the scope of government programs, may need to be taken. But discussing such issues makes politicians wary, fearful that a comment taken out of context can give ammunition to a potential election opponent.

As mentioned, a government official agreeing to borrow money creates a moral obligation for their nation and its people. It is right and just that the citizens of a nation pay taxes to finance the right operations of their sovereign state. At the same time, it is right and just that political actors use the tool of government debt wisely and pursue ends which will benefit the Common Good.

While borrowers are called to act prudently, so too are those who lend money to governments. Most money lent to sovereign governments comes from banks, other governments, and international bodies such as the World Bank. These funds, raised from taxes, bank deposits and other revenue streams is not the personal property of those officials who decide whether to extend a loan, but is rather held in trust. In the spirit of Prudence and of stewardship, it behooves a lender to disburse money only when there is good assurance of proper and timely repayment.

Further, money should be loaned to support programs and policies which promote the common good of a nation. Money lent for vanity projects, or which will benefit only a few at the expense of many, is money not properly lent. St. Paul VI wrote development "cannot be

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<sup>271</sup> FiscalData.Treasury.Gov

restricted to economic growth alone. To be authentic, it must be well rounded; it must foster the development of each man and of the whole man.” (*Populorum Progeressio*, 14)

He says further that dialogue

...between those who contribute wealth and those who benefit from it will provide the possibility of making an assessment of the contribution necessary, not only drawn up in terms of the generosity and available wealth of the donor nations, but also conditioned by the real needs of the receiving countries and the use to which the financial assistance can be put. Developing countries will thus no longer risk being overwhelmed by debts whose repayment swallows up the greater part of their gains. Rates of interest and time for repayment of the loan could be so arranged as not to be too great a burden on either party, taking into account free gifts, interest-free or low-interest loans and the time needed for liquidating the debts. (*Populorum Progeressio*, 54)

St. Paul VI speaks to the need for a sense of solidarity between the more developed and less developed nations of the world. For both borrower and lender, the loan transaction should be viewed as more than a mere financial transaction, but rather as a demonstration of solidarity. In the spirit of solidarity, those rich nations can extend aid to the poor, whether as a loan, a gift or a financial arrangement which benefits both parties.

In the spirit of subsidiarity, the rich nations must make certain any loan or gift does not create conditions which stifle the authentic development of the borrower. In his message to the United Nations in October of 1985, St. John Paul II said the time is over when the world’s economic powers “can act without regard for the effects of their own policies on other countries. They have to evaluate the positive and negative repercussions of these policies on the other members of the international community and introduce changes if the consequences constitute too much of a burden for other countries and especially the poorest ones.”<sup>272</sup>

The inability to change the course of its debt trajectory can cause any number of problems for a country, including a loss of confidence in its currency and a lower debt rating. These symptoms often do not affect only the borrowing country. Rather, a loss of confidence in the economy of one country can spread, as we have seen in the past, to its neighbors. This contagion, which starts with a loss of faith by investors in one nation, can quickly spread to countries who are otherwise not party to the debt transactions.

During the Mexican debt crisis of 1982, that nation’s troubles set off a contagion across Latin America, as fearful bankers and investors began to drain money out of countries before they became the next to threaten default. Debt problems in Southeast Asia in the 1990s led to the

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<sup>272</sup> Pope John Paul II, *Address to the United Nations*, Oct. 14, 1985, part 3, section 1



spread of contagion, impacting countries which were neighbors to those whose economic woes originally sparked the crises. Like the earlier crisis in Latin America, the financial crisis in Asia caused the nations of the region to fall into crisis as investors warily eyed those economies and wondered which would be the next to fall.

As shown by these crises, by “strengthening economic links among countries and regions, recent globalization has shown that any “potential crisis” may well spread out from one country to another one, by means of the current account of the balance of payments, or of the financial account, or else of both, in an international context in which geographical distances between countries did become less and less relevant.”<sup>273</sup>

An additional concern of the lender should be whether the debt being raised can, at some time in the future, be termed “odious.” Briefly put, the idea of odious debt holds that money loaned to an illegitimate or authoritarian regime, which does not go to benefit that country’s populace, will not be the responsibility of any legitimate successor regimes.

Current odious debt doctrine – using the term “doctrine” loosely, since it has never been formally adopted by a court or international decisionmaker – dates back to a 1927 treatise by a wandering Russian academic named Alexander Sack. Sack surveyed the handful of occasions on which a successor regime had repudiated the obligations of its predecessor as unenforceable, including the United States’ refusal to honor obligations incurred by Cuba under Spanish rule and Costa Rica’s repudiations of loans used by former dictator Federico Tinoco for his personal benefit. Based on this survey, Sack suggested that debt obligations are odious and therefore unenforceable if (1) they were incurred without the consent of the populace; (2) they did not benefit the populace; and (3) the lender knew or should have known about the absence of consent and benefit.<sup>274</sup>

The idea “regroups a particular set of equitable considerations that have often been raised to adjust or sever debt obligations in the context of political transitions, based on the purported odiousness of the previous regime and the notion that the debt it incurred did not benefit, or was used to repress, the people.”<sup>275</sup>

The idea that money loaned could be used by an oppressive regime to further cement its hold on power should give a lender pause. Whether the money is being requested from a private bank or from a body such as the IMF, the lender must take steps to ascertain to what uses that

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<sup>273</sup> Marzano, ‘Globalization, Poverty, Economic Development,’ *Angelicum*, p. 556

<sup>274</sup> Boltobn and Skeel, ‘*Odious Debt or Odious Regimes?*’ p. 83

<sup>275</sup> Howse, *The Concept of Odious Debt in Public International Law*, p.1

money will be put. A government building concentration camps or engaging in genocide, to cite some extreme examples, is a government which should not be given the courtesy of credit. Likewise, an illegitimate regime, condemned by the nations of the world at large, should not be given the courtesy of credit. There is no concrete definition of an “odious” debt, nor any strict criteria to determine if debt is legitimate or odious. However

...the central intuition is that the citizens of a country should not have to pay for the debts incurred by a prior “odious” regime when the funds did not benefit these regimes. It is simply not right to ask people to pay for funds from which they did not benefit, especially when the lender knew of this fact when it made its loan. The doctrine traditionally has an *ex post facto* flavor to it. The question is whether the acts of the past are such that we should relieve a country of what would otherwise be a current obligation. This guiding intuition is moral rather than economic.<sup>276</sup>

The doctrine “was pulled out of the closet and dusted off as people looked for a way to address the financial problems that Iraq faced post-Saddam Hussein.”<sup>277</sup> Odious debt doesn’t focus so much on levels of debt, but rather “it is the nature of the debt itself, rather than the amount of the burden, that determines whether relief will be granted.”<sup>278</sup>

The doctrine of odious debt, as Carmen Reinhart and Kenneth Rogoff wrote, “basically states that when lenders give money to a government that is conspicuously kleptomaniacal, subsequent governments should not be forced to honor it.”<sup>279</sup>

As James Buchanan and his co-authors wrote in *Deficits*, “Governments, with general support from the citizenry, have often repudiated commitments made earlier by legally authorized political agents. Moral support for such repudiation arises when the initial action comes to be judged, subsequently, as having been itself immoral. The normal evaluation of the initial action clearly becomes relevant in any argument in support of or against repudiation.”<sup>280</sup>

In cases where the use of money loaned will be used improperly, for instance by an overtly oppressive government to buy military equipment to stifle a legitimate protest movement, the lender should balk at making the loan.

Additionally, most declarations of odious debt are made *ex post facto*, after the fall of a so-called illegitimate government. Therefore, as it is impossible for the lender to know what the

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<sup>276</sup> Rasmussen, ‘Sovereign Debt Restructuring, Odious Debt and the Politics of Debt Relief,’ p. 249.

<sup>277</sup> Ibid, p. 254

<sup>278</sup> Ibid

<sup>279</sup> Reinhart and Rogoff, *This Time is Different*, p. 63

<sup>280</sup> Buchanan, et. al., *Deficits*, p. 367

future holds, they are called to exercise prudence when contemplating loans to questionable government entities.

It is not within the scope of this paper to fully examine the idea of odious debt. Suffice it to say that lenders should be aware that the idea of odious debt exists, that it calls for a moral as well as an economic analysis of a debt transaction and that it may have implications in the future when a nation's debt comes due.

For both borrowers and lenders, prudence is a necessity. A prudent lender will ensure that money loaned will support programs and policies which increase the common good and the development of all. A prudent borrower will avoid incurring excess debt for unnecessary or unproductive programs. Further, such a borrower will be sure to avoid piling up a debt burden so severe that it hampers economic development, both now and in the future.

One does not procure debt merely to transfer money. Every debt transaction has an end which it aims to achieve. It is the impact of this end upon human beings which determines whether we can say a debt deal is in conformity with right behavior. If that end is incompatible with the common good and with man's ultimate destiny, it can be said that the transaction is improper. And even if the money being raised is slated for a proper use, if the debt is improperly raised it is still problematic. Therefore, the virtue of prudence, which guides us in choosing the right means to reach a right end, is a needed component in the decision-making process of borrowers and lenders.

### **Temperance**

“Temperance is the moral virtue that moderates the attraction of pleasures and provides balance in the use of created goods. It ensures the will's mastery over instincts and keeps desires within the limits of what is honorable.”<sup>281</sup>

The things of the Earth are meant for the good and for the use of all. As stewards of the Earth, mankind is called to use the gifts of the Earth for its proper development. Pope Leo XIII addresses this idea in *Rerum Novarum*, where he writes “whoever has received from the divine bounty a large share of temporal blessings, whether they be external and material, or gifts of the mind, has received them for the purpose of using them for the perfecting of his own nature and,

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<sup>281</sup>*Catechism of the Catholic Church*, 1809

at the same time, that he may employ them, as the steward of God's providence, for the benefit of others." (*Rerum Novarum*, 22)

St John XXIII, in *Mater et Magistra*, wrote "man's aim must be to achieve in social justice a national and international juridical order, with its network of public and private institutions, in which all economic activity can be conducted not merely for private gain but also in the interest of the common good." (*Mater et Magistra*, 40)

The rich are called to exercise a preferential option for the poor, and to put their excess at the service of those in need. As with individuals, so it is with nations. However, politicians and officials are called to act with Prudence when procuring or disbursing loans. They must also practice Temperance, which speaks to the distribution and use of the goods of the world.

Money loaned or borrowed ought to be used for proper development, for projects and programs which can help a nation to properly flourish. Different circumstances call for different solutions. A government may borrow extensively to build vanity projects and increase its stature (i.e. Egypt in the latter 19<sup>th</sup> century). But a government may also need to borrow to purchase food and supplies to assist its citizens in times of natural or economic disaster. In the latter case, acting from a sense of solidarity, the lender nations or institutions may be called upon to convert the loan into a gift, giving what is needed rather than lending with the expectation of being repaid.

In these circumstances, a politician may face resistance from her constituents, who may object to what they perceive as sending money overseas which could be spent at home.

In *Populorum Progressio*, St. Paul VI addressed lawmakers when he said, "government officials, it is your concern to mobilize your peoples to form a more effective world solidarity, and above all to make them accept the necessary taxes on their luxuries and their wasteful expenditures in order to bring about development and to save the peace." (*Populorum Progressio*, 84)

Along with concern for proper development and progress, the parties to a loan should ensure that the projects and programs being financed are in line with a proper concern for the Earth's environment. In *Laudato Si'*, Pope Francis wrote "The urgent challenge to protect our common home includes a concern to bring the whole human family together to seek a sustainable and integral development." (*Laudato Si'*, 13)

He continued “I urgently appeal, then, for a new dialogue about how we are shaping the future of our planet. We need a conversation which includes everyone, since the environmental challenge we are undergoing and its human roots concern us all.”<sup>282</sup> (*Laudato Si'*, 14)

This concern for our common home must extend to those procuring loans and to those disbursing the financing. Development should be done with an eye toward sustainability and a mitigation of any potential environmental damage.

The U.S. Catholic Bishops wrote “changes in lifestyle based on traditional moral virtues can ease the way to a sustainable and equitable world economy in which sacrifice will no longer be an unpopular concept.” They added “A renewed sense of sacrifice and restraint could make an essential contribution to addressing global climate change.”<sup>283</sup>

The virtue of temperance also speaks to the idea of consumerism, which “maintains a persistent orientation towards ‘having’ rather than ‘being.’”<sup>284</sup> Consumerism is based on an improper understanding of the things of the world and man’s relationship with them. As St. John Paul II wrote in *Centesimus Annus*

In singling out new needs and new means to meet them, one must be guided by a comprehensive picture of man which respects all the dimensions of his being and which subordinates his material and instinctive dimensions to his interior and spiritual ones. If, on the contrary, a direct appeal is made to his instincts — while ignoring in various ways the reality of the person as intelligent and free — then *consumer attitudes* and *life-styles* can be created which are objectively improper and often damaging to his physical and spiritual health. (*Centesimus Annus*, 36)

To borrow strictly for consumption purposes seems an offense to temperance. A proper understanding of humanity allows one to develop a proper balance and relationship with the things of the world. But as economies develop and the material wealth of the world increases, increasingly we see a disproportionate importance placed on possessing. This excess consumption, especially by the world’s more advanced economies, threatens to increase a disparity of wealth and challenges the idea of solidarity. As St. John Paul II wrote in *Ecclesia in Asia*

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<sup>282</sup> Pope Francis also spoke about the intergenerational concerns surrounding the environment. These same concerns are reflected in the theology surrounding government debt and will be discussed in a later chapter.

<sup>283</sup> USCCB, *Global Climate Change: A Plea for Dialogue, Prudence and the Common Good*, section The Universal Common Good

<sup>284</sup> *Compendium of the Social Doctrine of the Church*, 360

In recent times the Church's Magisterium has insisted more and more upon the need to promote authentic and integral development of the human person, this is in response to the real situation of the world's peoples, as well as to an increased consciousness that not just the actions of individuals but also structures of social, political and economic life are often inimical to human well-being. The imbalances entrenched in the increasing gap between those who benefit from the world's growing capacity to produce wealth and those who are left at the margin of progress calls for a radical change of both mentality and structures in favor of the human person. The great moral challenge facing nations and the international community in relation to development is to have the courage of a new solidarity capable of taking imaginative and effective steps to overcome both dehumanizing underdevelopment and the "overdevelopment" which tends to reduce the person to an economic unit in an ever more oppressive consumer network. (*Ecclesia in Asia*, 32)

The increasingly connected nature of the world's economies has created a situation where the actions of consumers and governments can impact the lives of those half a world away. People who have no say in an economic transaction can find their lives dramatically affected by the outcome of that transaction. Therefore, the Church calls on political and economic actors to recall the true purpose of the economy – which is to create and distribute the goods and services needed by humanity to achieve its true end.

A nation's debt problems can be further exacerbated by the existence of unfunded entitlement, such as a social security or government healthcare program.<sup>285</sup> In the *Program of Social Reconstruction*, written by the U.S. Bishops National Catholic War Council in 1919, the bishops called for "insurance against illness, invalidity, unemployment and old age."<sup>286</sup> And in *Rerum Novarum*, St. Leo XIII praised those "who have spent large sums in founding and widely spreading benefit and insurance societies." (*Rerum Novarum* 55)

Further, in *Pacem in Terris*, John XXIII wrote “

Man has the right to live. He has the right to bodily integrity and to the means necessary for the proper development of life, particularly food, clothing, shelter, medical care, rest, and, finally, the necessary social services. In consequence, he has the right to be looked after in the event of ill health; disability stemming from his work; widowhood; old age; enforced unemployment; or whenever through no fault of his own he is deprived of the means of livelihood.” (*Pacem in Terris*, 11)

When governments report their deficit numbers, they usually don't include the amount of unfunded liabilities which they can potentially face. At the end of 2021, the U.S. government

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<sup>285</sup> While programs of this nature are seen as good, they can add to a government's debt burden if improperly funded.

<sup>286</sup> U.S. Bishops National Catholic War Council, *Program of Social Reconstruction*, , 25

reported a total public debt outstanding figure of \$29.61 trillion.<sup>287</sup> However, this number did not include a potential \$65 trillion of unfunded liabilities for Social Security and Medicare.<sup>288</sup>

The problem of unfunded liabilities is exacerbated by the demographic realities which the world's developed nations are facing. People are living longer and the average age of populations is rising, while at the same time birth rates are declining to levels near or below replacement levels.<sup>289</sup> This creates a situation where fewer workers are paying into a system which is providing benefits to a larger cohort of beneficiaries who are living longer lives. Given these circumstances, the size of the unfunded liabilities will only continue to grow.

Those politicians who will be forced to find a solution to this situation will need to act with prudence and with temperance. A temperate politician will realize there is no good quick-fix solution to a problem decades in the making. If cuts must be made to military expenditures, they must be made wisely. Similarly, cuts to social programs must also be tempered by an understanding of the impact these cuts will have on individual human lives. Virtue, justice and mercy must all play a role in the politician's decision-making.

As pointed out, the Catholic idea of the common good will not allow the interests of one group to be sacrificed for the interests of another. A solution which either deprives those in need of government benefits or which unduly burdens those still paying into a system is neither right nor just.

But to address this issue, and the other issues mentioned above, will require fortitude on the part of those tackling the problem. The next section deals with that virtue and discusses how it can inform the decision-making of those politicians and officials who will work to solve the problems and mitigate the issues caused by the problem of too much debt.

## **Fortitude**

“Fortitude is the moral virtue that ensures firmness in difficulties and constancy in the pursuit of the good.”<sup>290</sup>

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<sup>287</sup> <https://www.treasurydirect.gov/govt/reports/pd/mspd/2021/opds122021.prn>

<sup>288</sup> Kerrey and Danforth, “How Long Can America Keep Borrowing?”

<sup>289</sup> Chappell, ‘U.S. Birthrates Fell by 4% in 2020, Hitting Another Record Low’

<sup>290</sup> *Catechism of the Catholic Church*, 1808

Fortitude, or courage, “enables one to conquer fear, even fear of death, and to face trials and persecutions.”<sup>291</sup> The virtue helps to strengthen one in times of distress and to enable one to do the right thing even in the most difficult of circumstances.

As mentioned, government borrowing in the last decades has increased dramatically. A practice that was once reserved for the most extreme and rarest of circumstances – deficit financing – has become commonplace in the world’s most developed economies. This trend has allowed governments to tap future prosperity and to finance programs and largesse while leaving the pain of repayment to future generations.

A politician may find it more desirable in the short-term to pay for programs with borrowed money rather than to support an increase in taxes. “A politician interested in using budgetary policy to strengthen his electoral support will tend to favor policies that increase expenditure and reduce taxes.”<sup>292</sup> Every decision to borrow made by a government official creates a moral and financial obligation upon society. People who have little say in the matter, save for their vote, are handed the responsibility of repaying the debt. And every dollar borrowed today constrains the amount of dollars available for future use. Every dollar, pound or euro of government debt incurred today limits the possibilities for future generations.

The problem is visible, not just in the world’s most developed nations, but also in the least developed countries. As St. John Paul II wrote in *Sollicitudo rei Socialis*,

The reason which prompted the developing peoples to accept the offer of abundantly available capital was the hope of being able to invest it in development projects. Thus the availability of capital and the fact of accepting it as a loan can be considered a contribution to development, something desirable and legitimate in itself, even though imprudent and occasionally hasty.

Circumstances have changed, both within the debtor nations and in the international financial market; the instrument chosen to make a contribution to development has turned into a counterproductive mechanism. This is because the debtor nations, in order to service their debt, find themselves obliged to export the capital needed for improving or at least maintaining their standard of living. It is also because, for the same reason, they are unable to obtain new and equally essential financing. Through this mechanism, the means intended for the development of peoples has turned into a brake upon development instead, and indeed in some cases has even aggravated underdevelopment. (*Sollicitudo rei Socialis*, 19)

If the existing methods of debt and development no longer properly serve the ends for which they were devised, it is the responsibility of political actors to alter or eliminate the broken

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<sup>291</sup> Ibid

<sup>292</sup> Wagner and Tollison, *Balanced Budgets, Fiscal Responsibility and The Constitution*, p. 11



programs. However, it requires personal and political courage to address such issues. If a program keeps a politician's constituents happy, it will likely be politically disadvantageous to call for altering or eliminating the program. If excess debt is hampering a country's development, the richer nations holding that debt are called on to reduce or eliminate the debt. As St. Paul VI wrote, "unless the existing machinery is modified, the disparity between rich and poor nations will increase rather than diminish; the rich nations are progressing with rapid strides while the poor nations move forward at a slower pace." (*Populorum Progressio*, 8)

Similarly, if government debt enables people to maintain a lifestyle at the cost of future development, if the people receive benefits without being required to repay the debt, it is difficult for a political actor to work towards ending such policies. This is difficult to countenance when the existing system works to the short-term benefit of incumbent politicians and those in positions of power. As James Buchanan put it, "politicians themselves have, for the most part, short time horizons. For most of them, each election presents a crisis point, and the primary problem they face is getting past this hurdle."<sup>293</sup>

Discussing attempts to address debt issues in the U.S., the authors of *Balanced Budgets, Fiscal Responsibility and the Constitution* wrote

The source of our failure lies in the fact that there is a structural bias within our political system that causes higher levels of spending, taxing and deficits than are desired by the people, even though most members of Congress believe that large deficits and excessive government spending damages the economy. This spending has yet to be corrected by internal reform, because none of these reforms allows members to cope with spending pressures.<sup>294</sup>

Buchanan addressed this difficulty to make changes when he wrote "once democratically elected politicians, and behind them their constituents in the voting public, were finally convinced that budget balance carried little or no normative weight, what was there left to restrain the ever-present spending pressures? The results are, and should have been, predictable at the most naïve level of behavioral analysis."<sup>295</sup>

When seeking solutions to these problems, the actions of those in the political class must be informed by both the moral law and the constitutional law of the nation they serve. A lawmaker seeking change is called to act within the legal system to which her nation

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<sup>293</sup> Buchanan and Wagner, *Democracy in Deficit*, p. 166

<sup>294</sup> Wagner and Tollison, *Balanced Budgets, Fiscal Responsibility and the Constitution*, p. 59

<sup>295</sup> Buchanan and Wagner, *Democracy in Deficit*, p. 51

subscribes.<sup>296</sup> It may be desirable to amend those laws to create some manner of constitutional brake on excess spending. Some in the U.S. have pointed to the possibility of amending the nation's Constitution to include a balanced budget amendment, like those found in several state constitutions. There are economic and political implications to such an amendment, along with the moral issues it would raise, which will be discussed in the final chapter. The point being made here is that similar to other economic questions, the idea of a possible amendment must be addressed with the question of "how does this affect the human person" foremost.<sup>297</sup>

An understanding of virtue and justice, of right thought and right behavior, is necessary for political actors to make proper choices.

For political, economic and social leaders, it is a moral obligation to put themselves concretely at the service of the common good of their respective countries without pursuing personal gain. They must see their function as a service to the community with a direct concern for an equitable sharing of goods, services, and jobs among all, giving priority to the needs of the poor, and carefully monitoring the repercussions on the poor of the economic and financial measures they deem necessary in all conscious to adopt.<sup>298</sup>

Fortitude acts to strengthen those who feel that political change is necessary, as well as those with the power to bring about those changes. The call to politics is a noble pursuit. The Church says politics "is about ethics and principles, as well as issues, candidates and officeholders. To engage in "politics," then, is more than getting involved in current polemics and debates; it is about acting with others and through institutions for the benefit of all."<sup>299</sup>

The theological and moral arguments which call for politicians to act with virtue also ask that they act with justice. In the next chapter, we will look at how ideas of Commutative, Social and Distributive Justice can help politicians discern proper courses of action. The idea of Intergenerational Justice, which deals with what we owe those yet to come, and which figures largely in discussions about government debt, will be explored in its own chapter.

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<sup>296</sup> However, no one is asked to condone laws which run contrary to the Natural Law

<sup>297</sup> The idea of how a balanced budget amendment would comply with the Church's teaching is one which deserves further study. Many have addressed the issue of government budgets from the standpoint of Catholic Social Teaching, including the USCCB, who in their pastoral *Economic Justice for All*, called for "a federal budget that is both fiscally sound and socially responsible." However, they neither advocated for or against a balanced budget amendment.

<sup>298</sup> John Paul II, *Message to the United Nations*, part 3, section 4, sub section 111

<sup>299</sup> U.S. Conference of Catholic Bishops, *Forming Consciences for Faithful Citizenship*, 63

## Chapter Seven

### Justice, Government and Debt

The virtue of Justice “disposes one to respect the rights of each and establish in human relationships the harmony that promotes equity with regards to persons and to the common good.” (*Catechism of the Catholic Church*, 1807)

Justice is the answer to the question of “what do we owe to God and to each other.” The judge in court owes justice to the parties who come before the bar. Employers owe justice to workers by paying what is due. Workers owe to their employers a full day’s work as outlined by their employment agreement.

In a manner similar to other virtues, justice can assist the conscience in weighing the implications of one’s actions and aid one in deciding on the right course of action. This chapter examines three varieties of justice – distributive, commutative, and social – and with the question of how each can help to influence the decisions of politicians, policymakers, and others with regard to the issues surrounding government debt.

Intergenerational justice, while not a category of its own, encompasses the forms of justice discussed here, along with ideas of stewardship. It deals with things owed to the young and to generations not yet born, and figures prominently in the discussion of government debt. It will be examined on its own in the next chapter.

Each of these aspects of justice speak to different relationships among humans, between humans and the things of the world, and between humans and the institutions which they create and run. None of these aspects of justice operates in a vacuum. There may come situations which will see issues of distributive and commutative justice, for instance, which must be considered. For instance, “An equitable distribution of income is to be sought on the basis of criteria not merely of commutative justice, but also of social justice that is, considering, beyond the objective value of the work rendered, the human dignity of the subjects who perform it.”<sup>300</sup>

In *Quadragesimo Anno*, we read “That justice called commutative commands sacred respect for the division of possessions and forbids invasion of others’ rights through the exceeding of the limits of one’s own property; but the duty of owners to use their property in a

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<sup>300</sup> *Compendium of the Social Doctrine of the Church*, 303

right way does not come under this type of justice, but other virtues, obligations of which ‘cannot be enforced by legal action.’” (*Quedragesimo Anno*, 47) Later in the encyclical, Pius XI points out that justice alone cannot solve the problems of society. He wrote

Yet, even supposing that everyone should finally receive all this is due him, the widest field of charity will always remain open. For justice alone can, if faithfully observed, remove the causes of social conflict but can never bring about union of minds and hearts. Indeed, all the institutions for the establishment of peace and the promotion of mutual help among men, however perfect these may seem, have the principal foundation of their stability in the mutual bonds of minds and hearts whereby the members are united with one another. (*Quadragesimo Anno*, 137)

Just as the virtues, both cardinal and spiritual, work together to help inform the conscience and guide right action, so it is with justice in all its forms. But there may come a situation where the demands of different types of justice will conflict. In those cases, the parties involved must make the decision as to which strand of justice is paramount in the case and the degrees of consideration to be given to others. At the same time, as Pius XI reminds, other considerations, including charity and mercy, should be weighted as well.

### **Distributive Justice**

Distributive justice relates to what a community owes its members and is especially concerned with the distribution of goods (both material and immaterial) among those members.<sup>301</sup>

As Aquinas noted, “[T]here is the order of the whole towards the parts, to which corresponds the order of that community in relation to each single person. This order is directed by distributive justice, which distributes common goods proportionately.”<sup>302</sup>

He also stated “[I]n distributive justice something is given to a private individual, in so far as what belongs to the whole is due to the part, and in a quantity that is proportionate to the importance of the position of that part in respect of the whole.”<sup>303</sup>

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<sup>301</sup> Community, in line with Catholic Social Teaching, can be understood to mean family, social groups, or legal and government entities, including nation states. In the context of this work, distributive justice will be examined mostly in line with how it relates to government debt and the right uses for that tool.

<sup>302</sup> Aquinas, STh, Part 2, Sec. II, Q. 61 a. 1

<sup>303</sup> Ibid, a.2

In a free society, one with a minimum of constraints on economic transactions freely entered into, the demands of distributive justice can be achieved by ensuring workers are paid a good wage and according to their contractual agreements, as well as by creating and enacting a tax code which ensures immediate needs are met while allowing workers to save some of their salary. As Pope Leo XIII wrote in *Rerum Novarum*, “Let the working man and the employer make free agreements, and in particular let them agree freely as to the wages; nevertheless, there underlies a dictate of natural justice more imperious and ancient than any bargain between man and man, namely, that wages ought not to be insufficient to support a frugal and well-behaved wage-earner.” (*Rerum Novarum*, 45)

He also wrote

If a workman's wages be sufficient to enable him comfortably to support himself, his wife, and his children, he will find it easy, if he be a sensible man, to practice thrift, and he will not fail, by cutting down expenses, to put by some little savings and thus secure a modest source of income. Nature itself would urge him to this. We have seen that this great labour question cannot be solved save by assuming as a principle that private ownership must be held sacred and inviolable. The law, therefore, should favor ownership, and its policy should be to induce as many as possible of the people to become owners. (*Rerum Novarum*, 46)

As related to issues of government debt, distributive justice is the concern of politicians, government officials and lenders. The Catechism of the Catholic Church teaches “Those in authority should practice distributive justice wisely, taking account of the needs and contributions of each, with a view to harmony and peace.”<sup>304</sup>

The USCCB, in *Economic Justice for All*, pointed out that “Distributive justice requires that the allocation on income, wealth, and power in society be evaluated in light of its effects on the persons whose base material needs are unmet.” Further, they stated “Minimum material resources are an absolute necessity for human life. If persons are to be recognized as members of the human community, then the community has an obligation to help fulfill these basic needs unless an absolute scarcity of resources makes this strictly impossible”<sup>305</sup>

In *Gaudium et Spes*, the Church teaches “God introduced the Earth with everything contained in it for the use of all human beings and peoples.” It adds “In using them, therefore, man should regard the external things that he legitimately possesses not only as his own but also

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<sup>304</sup> *Catechism of the Catholic Church*, 2236

<sup>305</sup> U.S. Conference of Catholic Bishops, *Economic Justice for All*, 70

as common in the sense that they should be able to benefit not only him but also others.”

(*Gaudium et Spes*, 69)

It is not always clear how a debt transaction will affect a nation, its economy and its people. As John Paul II said

The factors inherent in economic growth are numerous, complex and at times difficult to control and coordinate. The duty of those in positions of responsibility in both the private and public sectors is to take all these factors into consideration in their decisions. This implies expertise and a concern for the common good. These factors include the choice of priority sectors, strict selection of capital investments, reduction in public spending (especially expenditures for reasons of prestige and amusements,) more rigorous management of public enterprises, control of inflation, support of national currency, reform of the tax system, sound agrarian reform, initiatives of private enterprise, and the creation of jobs. All of these are areas in which the Church, by recalling the human and ethical dimensions, addresses a particular call to Christians to work on concrete solutions.<sup>306</sup>

The demands of distributive justice call for borrowing that is necessary and that will benefit the common good. The benefits and burdens of such a transaction are spread among all. Procuring debt with an eye toward the demands of distributive justice will assist the borrower and lender in ensuring the interests of all parties are properly considered and protected. When a lawmaker votes to approve a budget which relies on debt and adds to a nation’s deficit, that lawmaker is creating an obligation for other people and possibly for future generations. This is a power which can easily be abused, to finance programs of government largesse which will serve to endear politicians to their constituents, at no immediate cost to those potential voters.

It was pointed out by economists Richard Wagner and Robert Tollison that “For the first century and a half of [America’s] history, our budgetary policy was influenced by the prevailing belief that budget deficits were proper only during wars and recessions and that at other times some effort should be made to retire national debt through budget surpluses. This ethos can be said to have constituted an unwritten element of our Constitution.”<sup>307</sup> However, restrained deficit spending has been increasingly shunted to the side as more and more politicians and government officials in more and more countries find it easier to raise debt than to raise taxes to pay for the essential functions of government and various other projects. The following paragraphs, written in the mid-1980s, rings as true today as it did then.

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<sup>306</sup> John Paul II, *Message to U.N.*, 14 October 1985

<sup>307</sup> Wagner and Tollison, *Balanced Budgets, Fiscal Responsibility and the Constitution*, p. 7

Yet still the deficits accumulate with each new administration, quite irrespective of its perceived location in policy space; with each new Congress, irrespective of its political policy balance; with each new party leader; and with each new idea about how to redesign the budgetary process. The era of monetarism, rational expectations, and Reaganomics, spanning the best part of a decade, witnessed a doubling in the real value of the U.S. federal debt; and was one of the most profligate periods of debt accumulation ever inflicted on the U.S. economy by its federal government.<sup>308</sup>

The U.S. government, along with many other of the world's more developed economies, continue to accumulate debt and add to their deficits, seemingly with no plan to reduce those deficits or to return to the days when government officials thought it immoral to accumulate debt for posterity to pay. The politicians and officials who transact the debt will not be the parties who have to repay it, except as the taxes they pay go to servicing the debt. "It is taxpayers who bear the burden, but this burden is not assigned at the time of borrowing. While the actual tax payments to amortize the debt will not be made until sometime in the future, their necessity stems from the act of borrowing. Instead of this liability being made explicit at the time of borrowing, it is left as something to be worked out when the debt is amortized sometime in the future."<sup>309</sup>

In *Deficits*, the authors point out "The current generation of U.S. citizens, in accumulating foreign debts denominated in U.S. dollars, is leaving open to its successors the option of repudiating that debt by choosing to inflate it away, and of all the methods of defaulting on its obligations open to an electorate, inflation is the one against which moral sanctions seem to be the weakest."<sup>310</sup>

When the accounting comes, and if the amount of money required is too large for a government to repay, those who are being asked to repay the debt may consider repudiating that debt, and either default or monetize the debt, inflating the currency and repaying an amount which is ultimately less than the lenders gave. Thus, it is easy to see from this how the actions of contemporary politicians can lead to what is in a sense a "near occasion of sin" for those in the future who are expected to shoulder a debt burden which was created for them in the past.

This has become a problem in the 21<sup>st</sup> century, when nations around the world are dealing with the repercussions of the Financial Crisis and the economic fallout from the Covid-19 pandemic. Government responses to these two crises were hampered for many by the fact that their nations had piled on debt and were unable to service it when the economic crises hit. This in turn led to the austerity programs in Greece, Spain, Italy and other nations which resulted in

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<sup>308</sup> Buchanan, et. al., *Deficits*, p. 3-4

<sup>309</sup>Wagner and Tollison, *Balanced budgets, Fiscal Responsibility and the Constitution*, p. 26

<sup>310</sup> Buchanan, et. al., *Deficits*, p 343

high unemployment, decreased government benefits and the suffering of millions who were caught up in the aftermath of crisis.

It has often been easier to borrow money to finance government than it is to raise taxes to pay for new or existing plans. A politician can resort to such a tactic to maintain a favorable appearance in the eyes of the voting public, calculating she will be out of office by the time the bill finally comes due.

The current policy among many of the world's most advanced economies to continue borrowing is problematic, at best. It is imprudent to build up deficits to the point where they can threaten the proper and legitimate functioning of government. It is unjust to build up a legacy of debt and expect its repayment to become the problem of a future generation. It goes against the practice of generations past, who saw the repayment of public debt as a duty to be carried out by those who benefitted from the debt in the first place.

Both for the family or the firm and for the government, there exist norms for financial responsibility, for prudent fiscal conduct. Resort to borrowing, to debt issue, should be limited to those situations in which spending needs are "bunched" in time, owing either to such extraordinary circumstances as national emergencies or disasters, or to the lumpy requirements of a capital investment program. In either case, borrowing should be accompanied by a scheduled program of amortization.<sup>311</sup>

Continued deficit financing, rolling over that debt and making no effort to reduce its size can be seen as an improper use of the tool of government debt. It not only creates an unfair burden for those yet to come, it distorts the national economy and the relationship between borrower and lender and between those in government and those they are called to serve.

The argument being made is not that government debt is bad, *per se*, for there have been numerous times when a government has contracted debt for some legitimate purpose and repaid it promptly and with little trouble. The argument being made is not economic in nature, except as it addresses an economic transaction. The argument being made is aimed at the conscience of the individual lawmakers, officials, bankers, and others who are party to a debt agreement. The purpose here is not to judge, but rather to appeal to those who are party to transactions that create debt in the name of others. Both borrowers and lenders bear responsibility.

As mentioned, governments have borrowed vast amounts to finance war. This is borrowing which can be justified and can justly impose a burden on both the present generation

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<sup>311</sup> Ibid, p. 18



and those yet to come. For those living, the successful prosecution of war ensures the safety of their lives and possessions from aggression. In the same way, a successful war preserves the integrity and continuity of government. The benefits also accrue to future generations, in so far as social and political continuity lead to a just society which defends their rights and helps them to develop in a proper manner.

Money borrowed to finance large infrastructure projects, to cite another example, can create both intergenerational benefits and intergenerational obligations. In this way, a sense of solidarity is strengthened between those who are and those who are yet to come. A bridge and highway system, for instance, can be conceived, financed, and built by one generation and still be of great benefit to future generations. It is only just, then, to ask all who benefit to accept some of the burden, according to their abilities, to pay for the system.<sup>312</sup> Because the benefits are shared by many, so too should the burden be shared. Therefore, it is just to ask the future to accept some of the burden of repaying debt when they are the beneficiaries of actions financed by that debt.

When considering a project which calls for debt financing, the officials and lawmakers looking to procure the loan must consider what they are borrowing for and why they are resorting to creating debt. During the Financial Crisis of the 21<sup>st</sup> century, billions were borrowed to finance programs – for job retention, aid to the unemployed and businesses, and for government infrastructure programs which offered jobs to those who wanted to work. Money borrowed in this manner may be justified as an investment in the common good of present and future generations.

Much government borrowing is meant to finance projects which can be seen as investments in the future. While specific policies will vary according to circumstances of time and place, there are some guidelines regarding investments which are promulgated by the Church which can help to inform the decisions of policymakers.

In *Quadragesimo Anno*, Pope Pius XI, writing of the individual investor, said “Expanding larger incomes so that the opportunity for gainful work may be abundant, provided, however, that this work is applied to producing really useful goods, ought to be considered....” (*Quadragesimo Anno*, 51)

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<sup>312</sup> Borrowing for infrastructure, unlike borrowing for certain social needs, allows for the creation of fees paid by those who use said infrastructure, which can then go to help pay down the debt which has been incurred.

Reflecting on this, Oswald von Nell-Breuning wrote

Thus, the Pope acknowledged the formation of capital out of income as a virtue when it is directed into very definite channels. His demand is twofold: (1) that large incomes be invested in enterprises offering the opportunity of employment and wages; therefore, in enterprises that not merely keep hands busy, but offer an opportunity for those employed to make a living; (2) that the capital not be invested according to a misunderstood principle of profit that asks merely for interest irrespective of whether it be obtained morally or immorally.<sup>313</sup>

Borrowers and lenders should strive to finance programs which offer the good of a job, which offer a road to proper development, which are sustainable and in line with the common good of present and future generations. The continuation of a functioning economy, the good of a job and support for those in need are all goals which justify borrowing. As Heinrich Pesch wrote, “Whatever industry may have accomplished in modern times that may be deemed as progress must be preserved by all means. The future should not be deprived of that.”<sup>314</sup>

### **Commutative Justice**

Commutative Justice “regulates exchanges between persons and between institutions in accordance with a strict respect for their rights.”<sup>315</sup> Commutative Justice concerns itself with the protection of property rights, with the proper repayment of debts and with the right fulfillment of one’s obligations.<sup>316</sup> In *Quadragesimo Anno*, Pope Pius XI wrote regarding the relationship between ownership and labour that “Relations of one to the other must be made to conform to the laws of strictest justice – commutative justice, as it is called – with the support, however, of Christian charity.” (*Quadragesimo Anno*, 110)

In his book about the encyclical, Oswald von Nell-Breuning wrote “Commutative Justice and charity are the *only* determinants in the relation between capital and labour.”<sup>317</sup> (original italics.)

Commutative Justice speaks also to the relationship between borrower and lender. Therefore, the parties in a debt arrangement must act according to the demands of Commutative Justice, but also to the demands of Christian charity. The actions of the state are simply the

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<sup>313</sup> Nell-Breuning, *Reorganization of the Social Economy*, p. 115

<sup>314</sup> Pesch, *Ethics and the National Economy*, p. 156

<sup>315</sup> *Catechism of the Catholic Church*, 2411

<sup>316</sup> Ibid

<sup>317</sup> Nell-Breuning, *Reorganization of the Social Economy*, p. 169

actions of individuals who hold positions of authority, representing their constituents and citizens in whatever form their government takes. Therefore, concerns of justice are addressed to the individual legislator, to the individual official, to those in a position to make and carry out the policies of a government. These individuals are called to properly form their conscience so that it may aid reason in making right decisions and inform the intellect between what is right and what is wrong.

The concerns of Commutative Justice in some ways parallel the purpose of jubilee as understood by the ancient civilizations of the Fertile Crescent and the Biblical understanding expressed in the Pentateuch. Commutative Justice is intended to restore and maintain a proper relationship between people. As mentioned, the idea of debt is unnatural, a post-Fall reality which causes a disruption in the social fabric. Debt divides people into different classes, into debtor and lender, and creates an uneven relationship between people. Similarly, debt can create an uneven relationship between nations.

If the existence of a debt creates such an imbalance, it is the duty of the parties, under Commutative Justice, to restore the right balance in the relationship and to make both parties whole. As Aquinas said, “restitution is an act of commutative justice, occasioned by one person having what belongs to another, either with his consent, for instance on loan or deposit, or against his will, as in robbing and theft.”<sup>318</sup> He also said “a person is bound to restitution not only on account of someone else’s property which has been taken, but also on account of the injurious taking. Hence, whoever is the cause of an unjust taking is bound to restitution.”<sup>319</sup>

Further, he stated “persons in authority who are bound to safeguard justice on earth, are bound to restitution if by their neglect thieves prosper, because their salary is given to them as payment of their preserving justice here below.”<sup>320</sup>

Given that Commutative Justice concerns itself with the relationships between individuals, it is obvious that these concerns will impact the parties negotiating a debt agreement. However, those on either side of the agreement should also understand that the demands of Commutative Justice ask they be concerned with the potential impact of their dealings on individuals not party to the negotiations. It is impossible to predict the future, and certainly every

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<sup>318</sup> *Aquinas, STh*, Part 2, II, Q. 62 a. 1

<sup>319</sup> *Ibid*, a.7

<sup>320</sup> *Ibid*

possible outcome of a debt deal cannot be imagined. The parties, however, are called to act with prudence and foresight and to endeavor to craft an agreement which will be of benefit to both parties without sacrificing the interests of any who might be impacted by the deal.

Borrower and lender are called to work together to ensure that a debt is repaid, in so far as it can be repaid. As mentioned, justice compels the borrower to repay its debt, if at all possible. Mercy and solidarity suggest that the lender strive to make the repayment possible, through reducing the size of payments, forgiving some of the debt, restructuring the loan's timeline or through similar remediation efforts. Lenders are in a position to exert a large amount of pressure on those to whom they lend money. As the Book of Proverbs reminds us, "the borrower is slave to the lender." (Proverbs 22:7)

The Church has expressed its concern about this aspect of the debt problem, reminding the world's more affluent nations of what, exactly, is owed to the poorest.

As St. Paul VI wrote in *Populorum Progressio*

The donors could certainly ask for assurances as to how the money will be used. It should be used for some mutually acceptable purpose and with reasonable hope of success, for there is no question of backing idlers and parasites. On the other hand, the recipients would certainly have the right to demand that no one interfere in the internal affairs of their government or disrupt their social order. As sovereign nations, they are entitled to manage their own affairs, to fashion their own policies, and to choose their own form of government. In other words, what is needed is mutual cooperation among nations, freely undertaken, where each enjoys equal dignity and can help to shape a world community truly worthy of man. (*Populorum Progressio*, 54)

Numerous encyclicals and other Church statements over the past half century and more have pointed out the responsibilities which rich nations have to their poorer brethren. St. Paul VI noted in *Populorum Progressio* "those nations which have recently gained independence find that political freedom is not enough. They must also acquire the social and economic structures and processes that accord with man's nature and activity, if their citizens are to achieve personal growth and if their country is to take its rightful place in the international community." (*Populorum Progressio*, 6)

He later says that proper development of nations and peoples requires a joint effort from the whole of humanity.

This duty concerns first and foremost the wealthier nations. Their obligations stem from the human and supernatural brotherhood of man, and present a three-fold obligation: 1) mutual solidarity in the aid that the richer nations must give to developing nations; 2) Social Justice- the rectification of trade relations between strong and weak nations; 3) universal charity – the effort

to build a more humane world community, where all can give and receive, and where the progress of some is not bought at the expense of others. (*Populorum Progressio*, 44)

St. John Paul II, in *Centesimus Annus*, said “The principle that debts must be paid is certainly just. However, it is not right to demand or expect payment when the effect would be the imposition of political choices leading to hunger and despair for entire peoples. It cannot be expected that the debts which have been contracted should be paid at the price of unbearable sacrifices.” (*Centesimus Annus*, 35)

He also points out that

debt relief is, of course, only one aspect of the vaster task of fighting poverty and of ensuring that the citizens of the poorest countries can have a fuller share at the banquet of life. Debt relief programs must be accompanied by the introduction of sound economic policies and good governance. But just as important, if not more so, the benefits which spring from debt relief must reach the poorest, through a sustained and comprehensive framework of investments in capacities of human persons, especially through education and healthcare. The human person is the most precious resource of any nation or any economy.<sup>321</sup>

Paul VI said the effort to create such a world calls for sacrifice, generosity and effort on the part of the rich, both individuals and nations. The effort calls for those in the world’s richest nations to hear the cry of the poor, to reach out to their brothers and sisters and to willingly share from their abundance.

When working to lift the poorer nations up, loans and investments are not enough, Paul VI wrote. And while the work of eliminating hunger and reducing poverty are laudable goals, they are not the ultimate end to which politicians must work. The goal

...involves building a human community where men can live truly human lives, free from discrimination on account of race, religion or nationality, free from servitude to other men or to natural forces which they cannot yet control satisfactorily. It involves building a human community where liberty is not an idle word, where the needy Lazarus can sit down with the rich man at the same banquet table.” (*Populorum Progressio*, 47)

While much of the attention on government debt falls on actions of lawmakers and politicians, lenders are also called to act in a just and proper manner. As mentioned, those individuals who make decisions to lend money to sovereign nations, whether they work for multi-national banks or non-government organizations, have certain responsibilities regarding their duties. It is important for these persons to carry out their duties wisely, remembering always

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<sup>321</sup> John Paul II, *Message of the Holy Father to the Group “Jubilee 2000 Debt Campaign,”* Sept. 23, 1999

that the money they are lending is not their own, but rather that they act as stewards of the money belonging to their organizations. In the case of an international bank, the money being loaned belongs to the bank's depositors and investors, while in the case of a body such as the IMF, the money was given by member governments, who raised that money through taxation.

When a nation's debt does come due, it may fall upon the lender to restructure or forgive some or all of that debt, depending on how repayment is affecting the borrowing nation. In justice, all debts should be paid, in full and on time. The lender has the right to be made whole and to receive any fees or interest which were part of the original loan contract.

But there are times when a lender is called upon to act mercifully. In cases where full repayment of a debt on time would result in an increase in the suffering of a nation, a lender might reconsider whether the borrower must meet their payment schedule. In cases where outside events conspire to hamper a country's ability to pay its debts, or even in cases where the corruption or incompetence of a government hamper the ability to repay debt, a lender should consider acting mercifully and working with the borrower to alleviate the strain of repayment.

As with the politicians mentioned above, the argument is aimed not at any economic conceit but rather at the conscience of the lender. For those in the position to make a decision to defer or eliminate loan payments, economic considerations and justice should be tempered with mercy, solidarity and an understanding that we are called to offer a preferential option for the poor. As John Paul II said "In emergency situations in which debtor countries are unable to service their foreign debts or even meet their annual interest payments, the various creditors need to define their responsibilities within a framework of solidarity for survival. Those provisions, however, do not nullify the respective rights and responsibilities linking creditors and debtors."<sup>322</sup>

In *Ecclesia in Asia*, St. John Paul II reminded his readers

the Synod Fathers also addressed the debtor countries. They emphasized the need to develop a sense of national responsibility, reminding them of the importance of sound economic planning, transparency and good management, and invited them to wage a resolute campaign against corruption. They called upon the Christians of Asia to condemn all forms of corruption and the misappropriation of public funds by those holding political power. The citizens of debtor

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<sup>322</sup> John Paul II, Message to U.N., 14 October 1985

countries have too often been victims of waste and inefficiency at home, before falling victim to the international debt crisis. (*Ecclesia in Asia*, 40)<sup>323</sup>

Just as the rich man is called to share his abundance with the poor, so too are the rich nations of the world called upon to share their wealth – material, intellectual, political and spiritual – with the poorer nations. If a nation is in need, the richer nations can and should make a gift of their excess to provide aid and comfort to their poorer neighbors. In cases where the need is not so great, money can be loaned, with expectations for a reasonable return, in a just and fair manner.

### **Social Justice**

Social justice is seen as dealing with the manner in which “larger social, economic and political institutions of society are organized. Social justice implies that persons have an obligation to be active and productive participants in the life of society and that society has a duty to enable them to participate in this way.”<sup>324</sup>

“The meaning of social justice also includes a duty to organize economic and social institutions so that people can contribute to society in ways that respect their freedom and the dignity of their labour.”<sup>325</sup> The Church recognizes that men in society can never bring about true equality. But this is not to say that governments cannot legitimately work to better the lives of their citizens.

Pope Leo XIII wrote in *Rerum Novarum*

It must be first of all recognized that the condition of things inherent in human affairs must be borne with, for it is impossible to reduce civil society to one dead level. Socialists may in that intent do their utmost, but all striving against nature is in vain. There naturally exists among mankind manifold differences of the most important kind; people differ in capacity, skill, health, strength; and unequal fortune is a necessary result of unequal condition. Such inequality is far from being disadvantageous, either to individuals or to the community. Social and public life can only be maintained by means of various kinds of capacity for business and the playing of many parts; and each man, as a rule, chooses the part which suits his own particular domestic conditions. (*Rerum Novarum*, 17)

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<sup>323</sup> It should be remembered that although the Pope was discussing some of the world’s poorest nations, these concerns over corruption, waste and inefficiency can be equally applied to some of the world’s more prosperous nations.

<sup>324</sup> U.S. Conference of Catholic Bishops, *Economic Justice for All*, 71

<sup>325</sup> *Ibid*, 72

We see that social justice, as originally formulated, deals with institutions – government bodies and also social bodies, such as labour unions, mutual benefit societies and fraternal organizations. Social justice aims to enhance the common good of a society. Elements of the common good could be said to include peace, a working and fair justice system, sound money, protection of property and resources to care for those in need. This list is by no means complete, as the elements which make up the common good can vary according to place, time, culture and other circumstances.

In extreme circumstances, these and other functions can be impaired by the existence of excess government debt. As demonstrated, it is often the case that excessive government debt works to hamper a government's ability to react to extraordinary situations. If a government is unable to borrow on favorable terms, or is locked out of debt markets completely, it hampers their ability to react when the need arises to raise extra funds. Social justice speaks to the common good in all institutions and in their relations with individuals. It is imperative for government bodies to work toward the common good, but just as imperative for social bodies to strive to create the proper conditions for the common good, whatever their sphere.

Pius XI wrote that

... it is the very essence of social justice to demand of each individual all that is necessary for the common good. But just as in the living organism it is impossible to provide for the good of the whole unless each single part and each individual member – that is to say, each individual man in the dignity of his human personality – is supplied with all that is necessary for the exercise of his social function. (*Divini Redemptoris*, 51)

Heinrich Pesch, writing in the early part of the last century, said social justice “requires the fulfillment of all obligations as well as the realization of all claims which have the well-being of society as their object.”<sup>326</sup> Further, he stated “Just as in the political society the area of private rights must subordinate itself to the area of public rights, so also in the national economy, specifically, *the area of private economic interests must defer to the collective interests and*

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<sup>326</sup> Pesch, *Heinrich Pesch on Solidarist Economics*, p. 176.



*common objectives of the national economy as required by the demands of social justice.*”<sup>327</sup>  
(italics original)

Occasion may arise where the interests of an individual, defended by commutative justice, will run contrary to the interests of the greater community, which are the concern of social justice. In this case, the interests of the group can be said to take precedence over the interests of the one. An example to illustrate this point was given by Pius XI in *Quadragesimo Anno* and deals with the idea of a family wage.

“According to *Quadragesimo Anno*, the demand for a family wage is justified,” Nell-Breuning wrote.

In an economic system in which vast numbers of the populace are forced to live on income from wages, this demand is absolute, as a demand of social justice. The public order in such a community contradicts social justice until conditions have been changed so that a family wage can be paid, not only to those workers who have a family, and must support those families solely from their wage income, but to every adult worker. As a demand of commutative justice, however, it is conditional; as soon as the demands of social justice have been fulfilled, and the work has actually attained the value to which it is entitled according to economic conditions, it automatically becomes the employer’s duty to pay family wages.<sup>328</sup>

He further explains in a footnote “The relation between commutative and social justice that has been demonstrated here with family wages as an example demonstrates a sound general principle. Every case of commutative justice possesses this inherent relationship to social justice.”<sup>329</sup>

From this, we can understand the rights of an individual lender, defended by commutative justice, can be superseded by the rights of a community to pursue the common good, which exists in the realm of social justice. Similarly, a government may, in the name of distributive justice, suspend the rights of an individual lender if payment of a debt would be detrimental to the government’s obligations to the larger society. Josef Fuchs writes

Man always exists in relation to a community. The sum can be defended only by taking into account the incorporation of the individual into the community. This involves a close consideration of the necessity of the community of which the individual is a member. The rights of the individual, (or their justified exercise), are limited if, by pursuing these presumed rights, the

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<sup>327</sup> Ibid, p.62

<sup>328</sup> Nell-Breuning, *Reorganization of the Social Economy*, p. 178

<sup>329</sup> Ibid

common good would suffer a disproportionate damage. The individual considered as a member of the whole would then contradict himself in action.<sup>330</sup>

He continues by saying that because an individual “is a member of the community, his right is limited and valid only within the limits of the common good. His right ends where the common good is endangered....”<sup>331</sup>

That said, it must be seen as a serious matter to deprive a lender of his right to restitution, just as it is a serious matter to deprive any individual of any legitimate right. The circumstances must be extreme, and all other legitimate courses must have been exhausted before an action such as this should be allowed to take place. But it must be acknowledged that conditions may exist where such an action is necessary.

In keeping with the demands of social justice, debt procured by a government entity must serve a specific purpose, which is to further the common good. Thus, debt raised in a manner which is detrimental to the common good can be called improper. Therefore, the politician or official who procures a debt must be aware of the impact said debt will have upon others. She must be aware that she is creating a moral obligation for another person – the obligation to repay a debt – and therefore must act only to benefit the common good.

As the Church teaches “Economic life is not meant solely to multiply goods produced and increase profit or power; it is ordered first of all to the service of persons, of the whole man, and of the entire human community. Economic activity, conducted according to its own proper methods, is to be exercised within the limits of the moral order, in keeping with social justice so as to correspond to God’s plan for man.” (*Catechism of the Catholic Church*, 2426)

In keeping with the demands of Social Justice, lawmakers and officials must act in a manner which is in line with good governance. Social Justice is violated when the bonds between a politician and his constituents are severed. If so much debt is raised, (or raised for the wrong reason), that it creates doubt in the minds of the people about the legitimacy or competence of their government, the bonds of Social Justice begin to fray. When debt is raised and the burden of repayment is unfairly distributed, it challenges the bonds of Social Justice. When debt is raised which benefits only a few at the expense of many, it is a violation of Social Justice.

In *Economic Justice for All*, the USCCB wrote “Social Justice implies that persons have an obligation to be active and productive participants in the life of society and that society has a duty to enable them to participate in this way.”<sup>332</sup> Attention must be paid to how the procurement

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<sup>330</sup> Fuchs, *Natural Law*, p. 105

<sup>331</sup> Ibid, p 106

<sup>332</sup> U.S. Conference of Catholic Bishops, *Economic Justice for All*, Chapter 1, 72

and growth of government debt could impact a nation's population. It is impossible to know for certain how the accumulation of debt may affect future events, meaning politicians should act with great prudence before adding to a country's debt burden.

There can be no argument that any money spent to service debt is money which cannot be used to finance government initiatives and programs to aid a nation's people. Money spent to pay interest is money which cannot be used for another purpose. And the greater a government's debt servicing, the less it has to spend on other necessary and voluntary government programs.

In the 1980s and the 1990s, several of the world's less developed but highly indebted countries faced the dilemma of servicing their debt or providing needed medical aid and education to their populaces. In the Apostolic Exhortation, *Ecclesia in Asia*, John Paul II reminded us that "in many cases, these countries are forced to cut down spending on the necessities of life such as food, health, housing and education, in order to service their debts to international monetary agencies and banks. This means that many people are trapped in living conditions which are an affront to human dignity." (*Ecclesia in Asia*, 40)

The theological response at the time was to call for debt reduction in order to reduce the suffering of those nations and peoples. Many called for allowing nations suffering from the burden of repayment to be allowed to reduce, reschedule or repudiate debt.

In the first part of the 21<sup>st</sup> century, in the aftermath of the Financial Crisis, we saw many countries in Europe turn to austerity programs when the economic downturn made it difficult to service their national debt. A phenomenon which had hitherto been mostly seen in the world's least developed nations was now being seen in some of the most developed. These programs resulted in a rise in unemployment, a reduction in government benefits and in other financial hardship for the citizens of these countries. In an effort to alleviate the suffering of the people, the theological response today may also entail allowing the reduction, rescheduling or repudiation of debt.

Likewise, in the latter part of the 20<sup>th</sup> century, it was argued that debt burdens were slowing the proper development of heavily indebted poor nations. It was argued that reducing the debt burden would free these countries from a constraint on development. Development is an ongoing process. It is always possible to better distribute the goods of the Earth to create a higher standard of living, to produce more and better items and to provide more people with those things they need to survive and thrive. A contemporary and concurrent argument might be made

that even in the world's most developed nations today, if the existence of a crippling debt burden is hampering proper development, the moral response is to work toward reducing that burden by whatever means necessary. Proper development must be understood as happening on an international level. Concerns about the development of humanity don't stop at the borders of one's nation. John Paul II wrote

However much society worldwide shows signs of fragmentation, expressed in the conventional names First, Second, Third and even Fourth World, their interdependence remains close. When this interdependence is separated from its ethical requirements, it has disastrous consequences for the weakest. Indeed, as a result of a sort of internal dynamic and under the impulse of mechanisms which can only be called perverse, this interdependence triggers negative effects even in the rich countries. It is precisely within these countries that one encounters, though on a lesser scale, the more specific manifestations of underdevelopment. Thus it should be obvious that development either becomes shared in common by every part of the world or it undergoes a process of regression even in zones marked by constant progress. This tells us a great deal about the nature of authentic development: either all the nations of the world participate, or it will not be true development. (*Sollicitudo Rei Socialis*, 17)

But proper development must be understood as not encompassing merely economic wants and necessities. As Paul VI wrote

Increased possession is not the ultimate goal of nations nor of individuals. All growth is ambivalent. It is essential if man is to develop as man, but in a way it imprisons man if he considers it the supreme good, and it restricts his vision. Then we see hearts harden and minds close, and men no longer gather together in friendship but out of self-interest, which soon leads to opposition and disunity. The exclusive pursuit of possessions thus becomes an obstacle to individual fulfillment and to man's true greatness. Both for nations and for individual men, avarice is the most evident form of moral underdevelopment. (*Populorum Progressio*, 19)

And as John Paul II wrote

We should add here that in today's world there are many other forms of poverty. For are there not certain privations or deprivations which deserve this name? The denial or limitation of human rights – as, for example, the right to religious freedom, the right to share in the building of society, the freedom to organize and to form unions, or to take initiatives in economic matters – do these not impoverish the human person as much, if not more than, the deprivation of material goods? And is development which does not take into account the full affirmation of these rights really development on the human level? (*Sollicitudo Rei Socialis*, 15)

The Church teaches that proper human development is social, economic, political, personal and spiritual and also teaches that all nations and all people have a right to authentic development. As previously mentioned, debt problems in Latin America in the 1980s and in Southeast Asia in the 1990s led to the spread of contagion, impacting countries which were

neighbors to those whose economic woes originally sparked the crises. When we look at the effects a nation's debt can have upon its neighbors and trading partners, the ideas of subsidiarity and a preferential option for the poor should come foremost to our minds. The worldwide economy, which has always been bound together by ties of trade, has grown closer and more interrelated in the past decades. Easier methods of shipping and communications served to tie even more closely the trade patterns and economic decisions of the nations. Therefore, the responsibility of the world's most developed nations to those lesser developed nations has only intensified. When we look at the situation through the lenses of solidarity, we realize that the economic decisions of a nation's lawmakers are not made in a vacuum. Decisions made in Washington, London or Tokyo invariably are felt in Buenos Aires, Nairobi and Bangkok. Politicians worldwide have responsibilities not only to make decisions in the best interest of their constituents, but in the best interest for the world at large. This includes decisions to borrow, to increase the size of a nation's deficit and to repay or not repay existing debt.

The phenomenon of indebtedness brings to the fore the growing interdependence of economies whose mechanisms – capital flows and commercial exchanges – have become subject to new constraints. Thus, external factors heavily condition the debt of developing countries. In particular, floating and unstable exchange rates, the variations in interest rates and the temptation of industrialized countries to maintain protectionist measures have created an increasingly unfavorable environment for debtor countries that thus become still more vulnerable.<sup>333</sup>

Given this reality, lawmakers should broaden their perspective when arranging debt financing in time and scope to consider how their actions could affect both their own and other nations. They should be especially careful when making decisions which could affect the poorest and most vulnerable.

John Paul II wrote

Due to their greater economic power, the industrialized countries bear a heavier responsibility which they must acknowledge and accept even if the economic crisis has often challenged them with grave problems of reconversion and employment. The time is over when they can act without regard for the effects of their own policies on other countries. They have to evaluate the positive and negative repercussions of these policies on the other members of the international community and introduce changes if the consequences constitute too much of a burden for other countries, and especially the poorest ones.<sup>334</sup>

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<sup>333</sup> Pontifical Council *Iusticia et Pax*, *At the Service of the Human Community: An Ethical Approach to the International Debt Crisis*

<sup>334</sup> John Paul II, *Message to the U.N. 14 October 1985*, Part I, Section 3

During times of financial crises, including the most contemporary, we have seen both families and society at large disrupted. The loss of a job, especially that of the main breadwinner, is a tragic event for any family. During the most recent financial crises, during the Great Recession and in the wake of the Covid-19 pandemic, that tragedy was multiplied by the millions. In countries such as Greece and Spain, in Latin America and in Africa, the government's response was hampered by their already bloated deficits, which made it that much more difficult to procure the money needed to respond to the needs of the people.

When a government properly and prudently borrows money after decades of improper and imprudent borrowing, the problems of too much debt and too large a deficit are worsened. It seems improbable that a nation like the United States, whose deficit on Oct. 22, 2022 stood at more than \$31.2 trillion and has increased since then, will ever be in the position to reduce that deficit appreciably so long as its lawmakers continue to pursue the same policies pursued in the previous decades. One of the problems facing the world's most indebted developed nations is their inability to stop borrowing to fund their daily government activities. They cannot, as it were, live within their own means, and they find it almost impossible to change their policies.

The economists James Buchanan and Richard Wagner wrote

The corollary of the tendency towards deficits of increasing magnitude over time is the increasing difficulty of securing any reduction in these magnitudes. To a public and to a group of legislators thoroughly converted to textbook Keynesianism, reductions in aggregate spending rates, which may be generated by cutting down on the size of the deficits, will, at any time, cause some increase in unemployment and some cutbacks in real output.<sup>335</sup>

They also said "This seems to be the most tragic aspect of the whole Keynesian legacy. A political democracy, once committed to a sequence of Keynesian-motivated money-financial decisions, may find itself incapable of modifying its direction."<sup>336</sup>

This inability to change the course of its debt trajectory can cause any number of problems for a country, including a loss of confidence in its currency and a lower debt rating. These symptoms often do not affect only the borrowing country. Rather, a loss of confidence in the economy of one country can spread, as we have seen in the past, to its neighbors. This contagion, which starts with a loss of faith by investors in one nation, can quickly spread to countries who are otherwise not party to the debt transactions.

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<sup>335</sup> Buchanan and Wagner, *Democracy in Deficit: The Political Legacy of Lord Keynes*, p. 125

<sup>336</sup> Ibid

The Church has always taught that lawmakers and government officials are responsible for the good of their constituents and for promoting the common good. Therefore, lawmakers must take into consideration a number of factors – economic and moral – when deciding whether or not to conduct any economic transaction, paying special attention to how that transaction might impact the people of their nation and the world. “Interdependence and the need for justice in it is apparent when international debt is in question. In fact, servicing the debts of the third world now leads to crippling export of capital. A new approach is needed then to this question if justice is to be done.”<sup>337</sup>

Heavily indebted nations in the past were forced to sacrifice land, resources and sovereignty to their lenders. In the most extreme cases, such as Scotland in the 17<sup>th</sup> century or Newfoundland in the 20<sup>th</sup>, the nation was subsumed into some larger entity and ceased to exist as an independent country.

It is important to note that when satisfying the demands of the common good, consideration must be given not only to those who exist but to those who are yet to come, the future generations to whom the earth will be left. Distributive, commutative, and social justice all recognize that there is an intergenerational aspect to economic life, which calls on use to act as stewards of the earth and pass on to progeny the gifts received from those who came before. As Pope Francis wrote in *Laudato Si'*

The notion of the common good also extends to future generations. The global economic crises have made painfully obvious the detrimental effects of disregarding our common destiny, which cannot exclude those who come after us. We can no longer speak of sustainable development apart from intergenerational solidarity. Once we start to think about the kind of world we are leaving to future generations, we look at things differently; we realize that the world is a gift which we have freely received and must share with others. (*Laudato Si'*, 159).

The following chapter will examine this idea of intergenerational justice in greater depth.

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<sup>337</sup> Charles, *Christian Social Witness and Teaching*, Vol. 2, p 334

## Chapter Eight

### Intergenerational Justice

In the beginning, God made the Heavens and the Earth, and put humanity in its place as stewards of creation. It is here, in the stories of Genesis, that one finds the beginning of an understanding of intergenerational justice.

After God created the Earth, the beasts of the field and the birds of the air, He created Adam and Eve and told them

Increase and multiply, fill the Earth and subdue it, and rule over the fishes of the sea and the fowls of the air and all living creatures that move upon the Earth. And God said: Behold, I have given you every herb bearing seed upon the Earth, and all trees that have in themselves seed of their own kind, to be your meat: And to all the beasts of the Earth, and to every fowl of the air, and to all that move upon the Earth, and wherein there is life, that they may have to feed upon. (*Genesis 1:28-30*)

God gave to Adam and Eve all the things of the Earth for their use. “And the Lord God took man and put him into the paradise of pleasure, to dress it and to keep it.” (*Genesis 2:15*) But before this, He told them to increase and multiply and fill the Earth. Earth and its goodness were given as a gift, not just to Adam and Eve, but to their descendants. God’s words are spoken not just to Adam and Eve but to all men, who are asked to “fill the Earth and subdue it.”

Other Bible stories related the same message – the goods of the Earth given by God to man are meant not just for the present generation, but for all generations to come. In *Genesis 15*, for instance, God makes a pledge not only to Abraham, but to his descendants. In *Exodus*, we hear God say to Moses “Depart, go up from here, you and the people whom you have brought up from the land of Egypt to the land which I gave to Abraham, Isaac and Jacob, saying to your descendants I will give it.” (*Exodus 33: 1*) Later in *Deuteronomy*, Moses presents the Promised Land to the Israelites “which the Lord gave to your fathers Abraham and Isaac and Jacob, that he would give it to them and their seed after them.” (*Deuteronomy 1:8*)

What these stories make clear is that God is concerned not only with the present, but with generations yet to be born. His love and benevolence extend to those He speaks to in the Bible, and to their children and grandchildren and through the generations.

It follows, then, that acting as the Earth’s stewards, humanity is called to act with the interests of present and future at heart.



Pope Francis in *Laudato Si'*, said humanity has come to see itself as lord and master of the Earth, "entitled to plunder her at will." (*Laudato Si'*, 2) He said what is needed now is an understanding that "we ourselves are dust of the earth; our very bodies are made up of her elements, we breathe her air and we receive life and refreshment from her waters." (*Laudato Si'*, 2) Further, he added "Young people demand change. They wonder how anyone can claim to be building a better future without thinking of the environmental crisis and the sufferings of the excluded." (*Laudato Si'*, 13) Later in the encyclical, Pope Francis said the current generation must ask

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. When we ask ourselves what kind of world we want to leave behind, we think in the first place of its general direction, its meaning and its values. Unless we struggle with these deeper issues, I do not believe that our concern for ecology will produce significant results. But if these issues are courageously faced, we are led inexorably to ask other pointed questions: What is the purpose of our life in this world? Why are we here? What is the goal of our work and all our efforts? What need does the earth have of us? It is no longer enough, then, simply to state that we should be concerned for future generations. We need to see that what is at stake is our own dignity. (*Laudato Si'*, 160)

While his subject in the encyclical was the earth and the environment, his concern with the welfare of future generations and the impact of the current generation's actions are also pertinent to economic issues and the question of government debt. Not only is the pontiff concerned with the state of the environment, but also with the consumption of the current generation, which imposes burdens on those yet to come and threatens to use up or make unusable resources at the expense of future generations. He wrote

Our difficulty in taking up this challenge seriously has much to do with an ethical and cultural decline which has accompanied the deterioration of the environment. Men and women of our postmodern world run the risk of rampant individualism, and many problems of society are connected with today's self-centered culture of instant gratification. We see this in the crisis of family and social ties and the difficulties of recognizing the other. Parents can be prone to impulsive and wasteful consumption, which then affects their children who find it increasingly difficult to acquire a home of their own and build a family. Furthermore, our inability to think seriously about future generations is linked to our inability to broaden the scope of our present interests and to give consideration to those who remain excluded from development. Let us not only keep the poor of the future in mind, but also today's poor, whose life on this earth is brief and who cannot keep on waiting. (*Laudato Si'*, 162)

The Pontiff goes on to say “Many things have to change course, but it is we human beings above all who need to change. We lack an awareness of our common origin, our mutual belonging, and of a future to be shared with everyone. This basic awareness would enable the development of new convictions, attitudes and forms of life. A great cultural, spiritual, and educational challenge stands before us, and it will demand that we set out on the long path of renewal.” (*Laudato Si'*, 202)

That renewal – a change in attitude and behavior – can be informed and guided by the teaching of the Church, with emphasis on mankind’s role as steward and recipient of the gifts of the Earth from God.

In *Caritas in Veritate*, Pope Benedict XVI wrote of the importance of ensuring that the current generation acts as stewards of the environment in order to hand the gifts of God on to future generations. He said,

Human beings legitimately exercise a *responsible stewardship over nature*, in order to protect it, to enjoy its fruits and to cultivate it in new ways, with the assistance of advanced technologies, so that it can worthily accommodate and feed the world’s population. On this earth there is room for everyone: here the entire human family must find the resources to live with dignity, through the help of nature itself – God’s gift to his children – and through hard work and creativity. At the same time we must 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. (*Caritas in Veritate*, 50)

In his message on the World Day of Peace in 2008, Pope Benedict reminded his listeners that

Humanity today is rightly concerned about the ecological balance of tomorrow. It is important for assessments in this regard to be carried out prudently, in dialogue with experts and people of wisdom, uninhibited by ideological pressure to draw hasty conclusions, and above all with the aim of reaching agreement on a model of sustainable development capable of ensuring the well-being of all while respecting environmental balances. If the protection of the environment involves costs, they should be justly distributed, taking due account of the different levels of development of various countries and the need for solidarity with future generations.<sup>338</sup>

A large part of current discussions about the impact of climate change on humanity focus on what sort of Earth we will leave to future generations. There are legitimate concerns about how the actions taken today may negatively impact the lives of people yet to be born.

UNESCO’s “Declaration on the Responsibilities of the Present Generations Toward Future Generations” states in its first article that “The present generations have the responsibility

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<sup>338</sup> Pope Benedict XVI, *Message for the Celebration of World Day of Peace, Jan. 1, 2008*, 7

of ensuring that the needs and interests of present and future generations are fully safeguarded.”<sup>339</sup> Further, the document states

The present generations have the responsibility to bequeath to future generations an Earth which will not one day be irreversibly damaged by human activity. Each generation inheriting the Earth temporarily should take care to use natural resources reasonably and ensure that life is not prejudiced by harmful modifications of the ecosystems and that scientific and technological progress in all fields does not harm life on Earth.<sup>340</sup>

The importance of preserving the “common heritage of mankind” is also stressed in the document.

These concerns about the future also deserve a place in the debate surrounding government debt and how it should be procured and used. The actions taken today will have an impact on the lives of those yet to come, some of which are predictable and some of which are not. This chapter will explore the Catholic idea of stewardship of the Earth, discussing how and why we must use the gifts of the Earth with an eye toward what sort of world we leave to the future. The discussion will then turn to applying these same teachings to economic matters, presenting the argument that a similar regard for the needs of those yet to be born should be present in economic decision making.

### **Theological Concerns and Climate Change**

Since the turn of the century, in parallel with warnings about unsustainable debt, scientists have been sounding the alarm about rising global temperatures. Human activity is driving a rise in temperatures and a change in the Earth’s climate. This climate change could lead to permanent damage of the Earth’s environment. Unless action is taken to slow or reverse the trend, the scientists say, sea levels will rise, potable water supplies will disappear, extinction of species will accelerate and weather across the globe will become more unpredictable and dangerous.

The U.S. Bishops also argued that a concern for the Common Good “requires a concern for not only the people of today but for future generations as well.”<sup>341</sup>

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<sup>339</sup> UNESCO, *Declaration of the Responsibilities of the Present Generations Toward Future Generations*

<sup>340</sup> Ibid

<sup>341</sup> *Why does the Church Care About Global Climate Change?*

The sixth assessment report of the United Nation's Intergovernmental Panel on Climate Change (IPCC) was released in August of 2021. Reacting to that report, United Nation's Secretary-General António Guterres said "the alarm bells are deafening, and the evidence is irrefutable: greenhouse gas emissions from fossil fuel burning and deforestation are choking our planet and putting billions of people at immediate risk. Global heating is affecting every region on Earth, with many of the changes becoming irreversible."<sup>342</sup> One of the major issues which surrounds the potential effects of the changing climate is the idea of what impact actions today will have on those generations yet to be born. The concerns which drive the intergenerational justice debate in the context of global warming drive the debate in the context of government debt. Pope Francis, in *Laudato Si'*, points to a common misunderstanding of the reality of man which is driving both a degradation of the environment and a continuation of profligate government policies.

A misguided anthropocentrism leads to a misguided lifestyle. In the Apostolic Exhortation *Evangelii Gaudium*, I noted that the practical relativism typical of our age is "even more dangerous than doctrinal relativism." When human beings place themselves at the center, they give absolute priority to immediate convenience and all else becomes relative. Hence we should not be surprised to find in conjunction with the omnipresent technocratic paradigm and the cult of unlimited human power, the rise of a relativism which sees everything as irrelevant unless it serves one's own immediate interests. There is a logic in all this whereby different attitudes can feed on one another, leading to environmental degradation and social decay.

The Culture of Relativism is the same disorder which drives one person to take advantage of another, to treat others as mere objects, imposing forced labour on them or enslaving them to pay their debts. The same kind of thinking leads to sexual exploitation of children and abandonment of the elderly who no longer serve our interests. It is also the mindset of those who say: Let us allow the invisible forces of the market to regulate the economy, and consider their impact on society and nature as collateral damage. (*Laudato Si'* 122-123)

A proper understanding of man and his place in the world, in his relations with other men and in his relationship with his Creator are all necessary if he wishes to formulate a proper and right solution to the problems presented by excess debt. The Pope points out above that by seeing ourselves not as stewards but rather as master of creation, mankind is being drawn to an improper understanding of its place and role in the world.

In 2001, the U.S. Conference of Catholic Bishops released "Global Climate Change: A Plea for Dialogue, Prudence and the Common Good." In their statement, they pointed out

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<sup>342</sup> Guterres, (2021) *Secretary-General's Statement on the IPCC Working Group 1 Report on the Physical Science Basis of the Sixth Assessment*

At its core, global climate change is not about economic theory or political platforms, nor about partisan advantage or interest group pressures. It is about the future of God's creation and the one human family. It is about protecting both "the human environment" and the natural environment. It is about our human stewardship of God's creation and our responsibility to those who come after us.<sup>343</sup>

Later in the document, they reiterate this concern for the future when they write

The common good calls us to extend our concern to future generations. Climate change poses the question "What does our generation owe to generations yet unborn?" As Pope John Paul II has written, "there is an order in the universe which must be respected, and . . . the human person, endowed with the capability of choosing freely, has a grave responsibility to preserve this order for the well-being of future generations."<sup>344</sup>

The responsibilities that the present generation has toward future generations has nothing to do with those who do not yet exist. None but God knows who these future people will be, what their needs will be, or even if they will exist at all.<sup>345</sup> The attitude of the current generation must be one of stewardship, with a recognition that we are called to preserve and protect the gifts of the Earth as an inheritance to those who are yet to come. Humanity has the responsibility of stewardship because God calls us to act as stewards. We don't know for certain if there will be future generations of humanity, but we are tasked to act on that assumption.

This is the nature of stewardship, to preserve and improve the things given to us in trust, and be ready to pass them forward when the time comes.<sup>346</sup>

Any obligations we have to future generations are a result of our obligation to God. We are asked to act as He would have us act, to do good and avoid evil and the care for His creation. Even if future generations don't yet exist, they may yet exist in the mind of God. These generations are as deserving of a working economy, stable political system and a clean environment as any who came before.

Many popes have expressed concern for the effect of humanity's action of the environment, including John XXIII, John Paul II, Benedict XVI and Francis. National conferences of bishops, theologians and Catholic writers have all expressed concern as well, as was noted previously.

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<sup>343</sup> *Global Climate Change: A Plea for Dialogue, Prudence and the Common Good*

<sup>344</sup> Ibid

<sup>345</sup> To paraphrase C.S. Lewis, the Second Coming could occur before I finish typing this footnote.

<sup>346</sup> The Parable of the Talents [MT 25:14-30] serves as an excellent example of stewardship.

Outside the Church, many voices have been raised to express concern as well.<sup>347</sup> It has been pointed out that

Because members of each generation share the Earth with members of the same generation and with other generations - past and future – our actions, inactions, decisions, and choices today are interconnected and have far-reaching and long-term consequences that affect the lives, livelihood, quality of life and opportunities of those who will inherit the world after us. Thus, current generations have a moral responsibility to act as good ancestors and to conserve and pass on the resources needed to ensure sustainable and desirable futures for youths, children and generations to come.<sup>348</sup>

The author goes on to say “Considering the human rights of future generations does not mean prioritizing them over the fulfillment of the human rights and basic needs of present generations. But it does mean balancing the rights of present and future generations and providing a long-term vision.”<sup>349</sup>

In arguing for representation for future generations in climate planning, Morten Fibieger Byskov and Keith Hyams suggest the interests of future generations must “be central to climate policy and planning.” They also point out “What is less clear is how these interests ought to be properly represented on relevant fora.”<sup>350</sup>

William MacAskill, in a recent book, asked what is owed to the future. He argues in favor of longtermism, “the idea that positively influencing the long-term future is a key moral priority of our time.”<sup>351</sup>

In his book, he says arguments for longtermism are “based on simple ideas: that, impartially considered, future people should count for no less, morally, than the present generation; that life, for them, could be extraordinarily good or inordinately bad, and that we can really make a difference to the world they inhabit.”<sup>352</sup>

He notes this is not to say the interests of the future trump the interests of today. “Climate change shows how actions today can have long-term consequences. But it also highlights that

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<sup>347</sup> Some, like Greta Thunberg and Nobel Peace Prize winner Wangari Maathai have achieved widespread recognition for their message.

<sup>348</sup> *Safeguarding Rights of Future Generations for Long-term Stability*

<sup>349</sup> Ibid

<sup>350</sup> Some proposals they outline include assigning an ombudsman and youth quotas in democratically elected assemblies. *Who Should Represent Future Generations in Climate Planning?*, p. 199

<sup>351</sup> *What We Owe the Future*, p. 4

<sup>352</sup> Ibid, p. 5

longterm-oriented actions needn't involve ignoring the interests of those alive today. We can positively steer the future while improving the present, too."<sup>353</sup>

### **Government Debt and Future Generations**

It is difficult to perfectly quantify the impact that humanity has upon the earth's environment. This is not the case, however, when it comes to questions of government debt, which is 100% determined by the decisions of individuals working in some government capacity. While outside factors may act to influence an individual's decisions, those decisions are solely made by some official or politician. There are no impersonal laws of nature which determine when a government will or will not borrow money.

Even as this debt has been accumulated over the last generations, voices have been raised warning of its possible impact on the future and calling for those in power to have more concern for the young and for those yet to be born. For instance, the economists Laurence J. Kotlikoff and Scott Burns wrote "Our de facto generational policy has been to indulge the present at the expense of children living and unborn. This gives new meaning to 'taxation without representation.'"<sup>354</sup>

Expressing similar concerns, U.S. Senator Tom Coburn said money borrowed to fund government "stimulus" was "generational theft. Eventually, we would have to pay back what we were borrowing through higher tax rates, higher interest rates or a debased currency."<sup>355</sup>

Writer Michael Lewis said "When you borrow a lot of money to create a false prosperity, you import the future into the present. It isn't the historical future so much as some grotesque silicon version of it. Leverage buys you a glimpse of a prosperity you haven't really earned."<sup>356</sup>

Pope Benedict XVI warned "the way humanity treats the environment influences the way it treats itself, and vice versa." (*Caritas in Veritate*, 51) He also said the responsibility to the future compels humanity 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." (*Caritas in Veritate*, 50)

All these voices are expressing concern about the impact current policy will have on the

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<sup>353</sup> Ibid, p. 24

<sup>354</sup> Kutlikoff and Burns, *The Coming Generational Storm* p. 83

<sup>355</sup> Coburn and Hart, *The Debt Bomb*, p. 137

<sup>356</sup> Lewis, *Boomerang: Travels in the New Third World*, Amazon ebook, location 618

next generations. The moral issue being discussed is not indebtedness per se, but the impact such debt may have on future generations. When considering economic and political issues, the impact of policy upon future generations is by no means the only consideration, nor even the primary consideration. Yet it is a factor to be considered and should be given great weight. The Church teaches in *Gaudium et Spes*

Investments, for their part, must be directed toward procuring employment and sufficient income for the people both now and in the future. Whoever makes decisions concerning these investments and the planning of the economy—whether they be individuals or groups of public authorities—are bound to keep these objectives in mind and to recognize their serious obligation of watching, on the one hand, that provision be made for the necessities required for a decent life both of individuals and of the whole community and, on the other, of looking out for the future and of establishing a right balance between the needs of present-day consumption, both individual and collective, and the demands of investing for the generation to come. (*Gaudium et Spes*, 70)

The present generation has a duty to those who are to come after. As Benedict XVI said, “projects for integral human development cannot ignore coming generations, but need to be *marked by solidarity and inter-generational justice.*” (italics original) (*Caritas in Veritate*, 48)

John XXIII 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 obligations.” (*Populorum Progressio*, 17)

### **The Needs of Tomorrow and the Needs of Now**

As current governments accumulate record levels of debt, the temptation may arise to structure repayments so they disproportionately impact future generations. Unlike consumer debt, which usually disappears when the debtor dies, sovereign national debt remains, absent default, so long as there is a sovereign to repay it.<sup>357</sup> Debt is a means of utilizing future prosperity today. With debt, one promises future resources to repay a transaction taking place in the present. In the case of a government borrowing money, the timeline for repayment can stretch to ten or twenty or thirty years. The debt is then repaid not by those who initiated the lending but by their progeny. It becomes important to consider the implications of this when the

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<sup>357</sup> And at times, the debt remains even after the sovereign disappears, as was the case in Scotland in the early 1700s and Newfoundland in the 1930s.



loan is originally contracted, especially in light of our understanding of distributive and commutative justice, as well as stewardship. Increasingly governments around the world contract loans, bonds are sold, money is spent to conduct the business of government, and the loan is rolled over into the next round of borrowing.

There are several ways to handle large government debt. The debt can be repaid according to the original agreement, or the agreement can be amended to lower or extend payments. A government could choose to debase its currency through inflation, paying pre-inflation debt with cheaper post-inflation money. A debt could be forgiven. Or a government could choose to default on its debt, in whole or in part.

Whatever solution is chosen, and whether that solution is chosen by the present generation or those to come, there are certain elements which need to be taken into consideration.

One is the preferential option for the poor, recognizing the reality that the poor are not only deficit in possession, but also lack prestige and power. The political voice of the poor is weak, their ability to impact society and make change, even in democratic societies, is hampered by their station in life. “One of the characteristics of poverty is that you are the object of other people’s power, rather than the subject who decides what to do with your own power.”<sup>358</sup> Where the rich can call upon their personal reserves and connections in time of danger or want, the poor have little to fall back on. “Where there is a question of protecting the rights of individuals,” Pope Leo XIII wrote, “the poor and helpless have a claim to special consideration. The rich population have many ways of protecting themselves and stands less in need of help.” (*Rerum Novarum*, 29)

The preferential option for the poor is a major tenet of Catholic Social Teaching and must be taken into consideration no matter what solution is decided upon. Also, the idea of Intergenerational Justice must be given strong weight, given mankind’s role as stewards of the Earth. A situation may arise, however, when these two considerations may be at odds with each other.

How is it that the poor should be served? Of course, they should be provided with the material goods to which they are entitled in justice. This should be done, not in a grudging spirit,

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<sup>358</sup> Welby, *Dethroning Mammom: Making Money Serve Grace*, p. 83

not because of a need to avoid the spectacle of families starving in the street, but rather because Christ taught us to care for His sheep, and in a spirit of love.

It is right and good that government entities assist the poor. “Considerations of justice and equity can, at times, demand that those in power pay more attention to the weaker members of society, since they are at a disadvantage when it comes to defending their own rights and asserting their legitimate interests.” (*Pacem in Terris*, 56) But even better is when that assistance is rendered unnecessary through the action of individuals and social organizations. “In teaching us charity, the Gospel instructs us in the preferential respect due to the poor and the special situation they have in society; the more fortunate should renounce some of their rights so as to place their goods more generously at the service of others.” (*Octogesima Adveniens*, 23) To practice a preferential option for the poor, however, does not mean other segments of society may be deprived of their rights or property in an unjust manner. The rights of all, given justly by nature and nature’s God, must be respected by all. One is reminded

Rights must be religiously respected wherever they exist, and it is the duty of the public authority to prevent and to punish injury, and to protect every one in the possession of his own. Still, when there is question of defending the rights of individuals, the poor and badly off have a claim to especial consideration. The richer class have many ways of shielding themselves, and stand less in need of help from the State; whereas the mass of the poor have no resources of their own to fall back upon, and must chiefly depend upon the assistance of the State. (*Rerum Novarum*, 37)

Another consideration is

The right to possess private property is derived from nature, not from man; and the State has the right to control its use in the interests of the public good alone, but by no means to absorb it altogether. The State would therefore be unjust and cruel if under the name of taxation it were to deprive the private owner of more than is fair. (*Rerum Novarum*, 37)

In the context of the current world situation, the preferential option for the poor has come to be questioned, not in the sense of whether the poor need or deserve aid, but rather in the sense of how government policies best serve those in need, especially when such aid strains already strained government resources.

It raises the question of whether, once a baseline has been established for government aid to the poor, that baseline can be lowered by people of good conscience, or whether that amount given must be sustained in order to treat the most vulnerable with mercy and justice? Given that circumstances change, that the economic and political situation is ever in flux, there may come a

time when this baseline of benefits needs to be reduced, or, perhaps, even eliminated, to serve the greater common good, or to ensure that the burden of debt will not cripple future generations. It is not a thing to be done lightly and certainly not for reasons of political expediency. But it may come to pass that a nation's budget deficit and financial situation becomes so severe, and debt levels become so onerous, that the needs of the poor, in the short-term, cannot be met by government assistance.

In "A Jubilee Call for Debt Forgiveness," the United States Council of Catholic Bishops put forth the idea that in certain situations, a government may engage in stabilization policies which, in the short run, may "have a strongly negative impact on the poor, such as when health, education, welfare, and other social expenditures are cut back in order to meet targets for reducing fiscal deficits."<sup>359</sup> It also says "These policies can also result in cutbacks in government funds for environmental protection, regulatory oversight, and land reform."<sup>360</sup>

The reason such a move would be countenanced is because "In the long run ... structural adjustment and stabilization policies may help a country become more competitive in the global arena and thus could create opportunities for economic growth and job creation." While such structural changes are being brought to fruit, however, it must be remembered that society must "Make adequate provisions for the poor who will suffer."<sup>361</sup>

If it is to be done, however, it must be done for only the most severe of circumstances. Pope Benedict XVI said "Lowering the protection accorded to the rights of workers, or abandoning mechanisms of wealth redistribution in order to increase the country's international competitiveness hinders the achievement of lasting development. Moreover, the human consequences of current tendencies towards a short-term economy – sometimes very short-term – need to be carefully evaluated." (*Caritas in Veritate*, 32)

The circumstances may come to pass when those currently living are forced to burden future generations with current expenses. The needs of the living surely take priority over the needs of those who may never be born. But if it must be done, it should not be done lightly.

The preferential option for the poor is a well-known element of Catholic Social Teaching. Less well-known, however, is the "preferential option for the young," which was expressed at the

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<sup>359</sup> US. Council of Catholic Bishops, "A Jubilee Call for Debt Forgiveness"

<sup>360</sup> Ibid

<sup>361</sup> Ibid

1979 Puebla conference. The Congregation for the Doctrine of the Faith noted

We should recall that the preferential option described at 'Puebla' is two-fold: for the poor and 'for the young'. It is significant that the option for the young has in general been passed over in total silence.”<sup>362</sup> In the discussion surrounding government debt, it is important to remember the concerns of not only the present generation, but the concerns of generations yet to come. Keeping in line with the requirements of the Common Good, we should ensure that the interests of the future are not sacrificed to further the interests of the current generation.

The U.S. Catholic Bishops pointed out “the Biblical call to speak for those who cannot speak for themselves and to make Christian love real and active has taken explicit shape over the last century in the traditional social teaching of our church.” They add “these principles take on increasing urgency and relevance as they are so clearly violated in the lives of so many children. Applying Catholic Social Teaching today requires a priority focus on children.”<sup>363</sup>

These children, those alive and those yet to come, have no voice in the decisions of governments who continue to borrow and to spend, and whose only provision to make repayment is to leave the bill to “progeny.” Similarly, the young possess few effective ways to influence these policymakers, although it is those very same young who are being burdened with a debt which is at times unnecessary and ill-advised.

“How should we evaluate impacts of our actions for those whose lives begin later than ours? We must recognize, of course, that many of those who would be radically affected 50 to 100 years from now by our current decisions are not abstract, possible future lives: A lot of those people are already with us.”<sup>364</sup>

The concern for the fate of progeny stems from the belief that humanity has a role as stewards of God’s Earth. It rises from the belief that the goods of Earth are destined for all men, to be used for their benefit and development. It is flavored by an understanding that the powerful are called to offer special consideration to the weakest and most vulnerable among us. It is also informed by a sense of justice, which compels people to offer to each their rightful due.

### **Calling for Changed Behavior**

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<sup>362</sup> Congregation for the Doctrine of the Faith, *Instruction on Certain Aspects of the “Theology of Liberation,”* Part VI, Para. 5

<sup>363</sup> U.S. Conference of Catholic Bishops, *Putting Children and Families First: A Challenge for Our Church, Nation and World*, Section III, B, 1

<sup>364</sup> Stern, *Why Are We Waiting?*, p. 162

In the past “it was simply understood, almost as a moral precept, that government should not run deficits except in extraordinary times, and then this debt should be paid off as soon as possible.”<sup>365</sup> That situation has changed, however, and the world is currently seeing a rise in the frequency and size of government borrowing and spending. Deficit spending has become the norm, with little or no thought given to how it might impact generations to come.

Any attempt to recapture that earlier concern for coming generations will be difficult. Once the people grow comfortable with government largesse, it is the rare politician who will try to wean them from it. Instead we see that “politicians in modern democracies tend to have limited tenure and therefore limited-time political horizons; they generally have little initiative to avoid behavior that will create widespread voter opposition after they have left office.”<sup>366</sup>

The present system encourages short-term thinking, with the political calculus reduced to the next election cycle and a cynical analysis of just how much must be promised to bribe voters into casting their ballot for our side. Naturally, not every politician is so cynical or manipulative, and voices are raised across the political spectrum that we are threatening our children and our grandchildren with disaster by our current actions. Still, a look at how the political economy is run today shows those voices have not always been heeded.

Notoriously, in the calculation of economics and business, costs in the far future have no present value. This is the effect of what is known technically as discounting. Clearly, something I am going to have to pay for in ten years has a different impact on me from something I am going to have to pay in ten minutes. Something that my great-grandchildren will have to pay in 100 years has even less impact on my present financial situation.... The result is that intergenerational impacts are ignored. Yet intergenerational ethics is a key element of reflecting the nature of God, who sees all time and space in one glance.<sup>367</sup>

Economist Nicholas Stern argues:

In particular, are there any ethical foundations in moral philosophy for treating two people, with exactly the same consumption, (where a person consumes many goods at each point of time), in each period of their lives, differently in our social valuations simply on the grounds that one life starts later than the other? To place a lower value on the life that starts later is “pure time discounting.”<sup>368</sup>

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<sup>365</sup> Buchanan, et. al, *Deficits*, p. 292

<sup>366</sup> Buchanan *et al*, *Deficits*, p. 38

<sup>367</sup> Welby, p. 43

<sup>368</sup> Stern, p. 162

The “moral precept” that what we borrow we must repay must be rediscovered. The government that borrows is called upon to make arrangements to repay that debt. To borrow money without giving thought or effort to its repayment is not borrowing, but stealing. Borrowing money and basing hopes for repayment on some future economic growth which will expand the economy is foolish and wrong.

There is no such reality as a future profit. Nor has anybody a right to assume, as wealth, in political economy, an equation which implies a future profit. There are profits; there are hopes of profits; there are speculations based on the hopes of profits; future profits there are not. Profits cannot exist until goods are produced and sales are made; at that time they may be considered either present or past.<sup>369</sup>

Is it possible to regain a proper sense of how to use government debt, and avoid the immoral and unjust practice of passing present costs on to the future? “Once an ethical standard has eroded,” James M. Buchanan wrote, “it is difficult to recapture, at least at the ethical level.”<sup>370</sup> It becomes a question of whether a generation wants to be people who act with justice and gives to each their due. If one accepts the reality of intergenerational justice, and understands their roles as keepers of the Earth, stewards under a creator God, then the path which must be taken becomes clearer.

Pope 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. When we ask ourselves what world we want to leave behind, we think in the first place of its general direction, its meaning and its values. Unless we struggle with the deeper issues, I do not believe that our concern for ecology will produce significant results.... We need to see what is at stake in our own dignity. (*Laudato Si'* 160)

If a nation decides to continue increasing the size and scope of government, it should ask its people to pay for it through taxation or fees. “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.”<sup>371</sup>

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<sup>369</sup> Tilden, *A World in Debt*, p. 40

<sup>370</sup> Buchanan et. al., *Deficits*, p. 307

<sup>371</sup> Ibid, p. 65-6

The choice to be made is whether to pay for what is gotten now, whether it be government largesse, national defense and social services, or impose the costs onto the future and force those yet to come to deal with the results of that spending.

The answer is not always obvious. As mentioned, situations exist where projects financed by debt have benefitted 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.”<sup>372</sup>

It is the duty of politicians and government officials to craft the response to these competing claims in such a manner that the common good is preserved, for current and future generations. Further, they must be aware that any solution enacted today might have serious negative implications for the future and strive to craft a response which does not unduly burden those yet to come nor make it impossible for them to fulfill the promises made by the current government. “Other things being equal, almost any person would prefer to be a citizen of a polity where promise-keeping characterizes governmental behavior than to be a citizen of a polity where government reneges on its contracts.”<sup>373</sup>

It is easy enough to ignore the long-term effects accumulation of debt will have on the future. For the politician, it is far more desirable to borrow and spend than to tax and spend. For the taxpayer, it is far more desirable to reap the benefits of government largesse and hold to the polite fiction that coming economic growth will erase any debt that might be accumulated.

However, the realization must be made that “Debt-fueled public consumption outlay accomplishes a straightforward intertemporal transfer; those persons who are recipients are members of the ‘current generation.’ Those who are the transferors or losers are the persons who will live in the future time periods. The latter persons, and only these, will find their potentially disposable income reduced.”<sup>374</sup>

The needs of those who are and of those who are yet to be, the balance that must be struck between those sometimes-competing goals, must be kept in mind as the search for solutions to the world’s debt problems continue. In the next chapter, several of those possible solutions will be

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<sup>372</sup> Booth, et. al., *Government Debt: A Neglected Theme of Catholic Social Teaching*, p. 19

<sup>373</sup> Buchanan et. al., *Deficits*, p. 365

<sup>374</sup> Ibid, p. 188

discussed in the light of Catholic Social Teaching to see how politicians, officials and others can justly and rightly act as stewards to their nations' finances.



## Chapter Nine

### A New Outlook on Debt

As one analyzes possible solutions to the problem of excessive government debt, it is important to remember that most government debt transactions have been carried out properly, with willing lenders and willing borrowers meeting, agreeing on terms and executing the transaction with little or no difficulty. There is a reason why government debt is still considered one of the safest investments. Most governments work hard to service and repay their debts and have done so for centuries.

However, the contemporary situation, in which the world's largest and most-developed economies continue to borrow and roll over debt, while making little effort to slow its growth, is unprecedented. Throughout history, nations primarily borrowed money to deal with extraordinary circumstances and worked to repay those debts and reduce their deficits. That no longer seems to be the case. Therefore, when discussing methods for a nation to deal with overlarge debt and deficits, one should be aware that this unprecedented situation may call for new and untried solutions. When examining these new situations, one looks to the example and wisdom of the past to help determine the right path to take in the *terra incognita* of resolving modern government debt woes.

As mentioned previously, little has been written about the problems of debt held by the world's largest economic powers from the perspective of Catholic Social Teaching. Even less has been written about that debt from an *ex ante* perspective. Indeed, the majority of Catholic writing on government debt over the past three decades has focused on the world's poorest and most indebted nations, on ideas of debt relief and jubilee. This work has sought to bring to the fore the reality that the world's richest nations are also among her most indebted, and to offer a oath toward resolving their problems of too much debt.

There must be changes in ways of thinking and recognition of the myriad elements which make up the problem. While the principle that debts should be repaid is an important one, it is not sacrosanct. There may arise circumstances which can serve to mitigate a nation's obligations. The Pontifical Council for Justice and Peace wrote

Complex causes of various types lie at the origin of the debt crisis. At the international level there are fluctuations of exchange rates, financial speculation and economic neo-colonialism;

within individual debtor countries there is corruption, poor administration of public monies or improper utilization of loans received. The greatest sufferings, which can be traced back both to structural questions as well as personal behavior, strike the people of poor and indebted countries who are not responsible for this situation. The international community cannot ignore this fact; while reaffirming the principle that debts must be repaid, ways must be found that do not compromise the “fundamental right of peoples to subsistence and progress.”<sup>375</sup>

To do this, the single-minded focus on markets needs to be abandoned in favor of better ways of looking at economic problems.

The ideas of solidarity, subsidiarity, stewardship and a preferential option for the poor must be foremost in these discussions. In addition, the ideal of justice must be included. “Interdependence and the need for justice in it is apparent when international debt is in question. In fact, servicing the debts of the third world now leads to crippling export of capital. A new approach is needed then to this question if justice is to be done.”<sup>376</sup>

In *Dethroning Mammon*, Justin Welby wrote “My concern springs from our turning away from the early and tentative questioning of the underlying ethical values of economics and a resumption of the debt-fueled, crisis creating model that led us into such trouble in the past. Ethics have become (particularly in our political discourse) an economic enhancement, valued but not fundamental.”<sup>377</sup>

Humanity cannot let ethics become a mere sideline to its discussion of economic problems, nor should mankind be content with the idea only the cold calculation of dollars and yen, pounds and euros has a place at the table. Humanity is allowed and is called to view these economic problems through the lens of the Church’s teaching and from a variety of perspectives, economic, moral, political, and social.

Amartya Sen wrote “If rational behavior includes canny advancement of our objectives, there is no reason why the canny pursuit of sympathy, or canny promotion of justice, cannot be seen as exercises in rational choice.”<sup>378</sup> He added “It is the power of reason that allows us to consider our obligations and ideals as well as our interests and advantages. To deny this freedom of thought would amount to a severe constraint on the reach of our rationality.”<sup>379</sup>

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<sup>375</sup> Pontifical Council for Justice and Peace, *Compendium of the Social Doctrine of the Church*, p. 254

<sup>376</sup> Charles, *Christian Social Witness and Teaching*, Vol. 2, p 334

<sup>377</sup> Welby, *Dethroning Mammon: Making Money Serve Grace*, p. 4

<sup>378</sup> Sen, *Development as Freedom*, p. 270

<sup>379</sup> Ibid, p. 272

Modern man has been conditioned to think of economic issues only in economic terms, to use the language and logic of the marketplace to determine if any transaction is right or wrong, good or evil. Economists argue that this market-based perspective is natural to mankind. “The economist’s explanation begins, as did [Adam] Smith’s, from the assumption that a ‘maximizing’ mindset is a given of human nature. A question that immediately comes to mind is what mind-set would serve the same purpose in a society that was not a slave to acquisitiveness.”<sup>380</sup>

Christopher A. Franks wrote “Market society evokes the sense that welfare depends first of all on securing exchange value for ourselves. This sense is at the root of the assumption common in modern economics that all economic activity begins in self-interest.”<sup>381</sup> He also warned “Our economic practices condition us to consider ourselves entitled to whatever we can get in the marketplace. The lowliness that would let go such claims and yield to the communal and ecological factors that shape a truly just price is hard to come by.”<sup>382</sup>

The reality is that many of the world’s governments, large and small, developed and less developed, are continuing to borrow and spend with no desire to repay what they have borrowed and no idea how to do so. “All of us are dependent on individuals, corporations and governments who are in debt, and there is a universal obligation to repay debts, and take out more debts, in order to prevent our fragile system from collapsing any further. The obligations of debt are the ultimate political obligations.”<sup>383</sup>

Given this reality “It is especially necessary to provide an ethical reflection on certain aspects of financial transactions which, when operating without the necessary anthropological and moral foundations, have not only produced manifest abuses and injustice, but also demonstrated a capacity to create systemic and worldwide crisis.”<sup>384</sup>

In the case of government debt, we are dealing with both economic and political aspects. This is an area where the two spheres meet, and where decisions about lending and borrowing can impact the lives and livelihoods of millions. The issues surrounding government debt, as we

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<sup>380</sup> Heilbroner, *21<sup>st</sup> Century Capitalism*, p. 98

<sup>381</sup> Franks, *He Became Poor*, p. 50

<sup>382</sup> Ibid, p. 3

<sup>383</sup> Goodchild, ‘*Capitalism and Global Economics*,’ p. 231

<sup>384</sup> Congregation for the Doctrine of the Faith and the Dicastery for Promoting Integral Human Development, *Oeconomicae et pecuniariae quaestiones (Considerations of an ethical discernment regarding some aspects of the present economic-financial system)*, 6

have seen, are numerous. The Church and its teachers must reach out to the lawmakers, bankers, officials and businessmen involved in these transactions and instruct them in the right and proper use of government debt. They must be trained to use the tool properly. They must be instructed in how to use the power and responsibility which they have as a result of their station in life, for the benefit of themselves and their fellow humans.

Borrowers and lenders, bankers and politicians all have certain responsibilities and duties, professional and moral, which they are expected to carry out. Those called to conduct borrowing and lending on a national and international level are asked to cooperate in an effort to ensure debt is used properly and justly.

Cooperation is the path to which the entire international community should be committed, “according to an adequate notion of the common good in relation to the whole human family.”<sup>385</sup> The economy’s place in society must be understood as just one element which makes up the whole.

### **The Way Forward**

Following the Second World War, the U.S. and U.K., to name two nations, had very high debt and deficit levels, reflecting the outlays made to fight the war. In subsequent years, these nations were able to dramatically reduce their debt, bringing the numbers back down to what were then considered “normal” levels. Part of the reason for this was a belief that it was immoral to leverage massive debt and leave it for progeny to pay. Another was the gigantic growth in economic activity in these two countries following the end of the war.

While the U.K. suffered from Nazi aerial attacks, which destroyed factories and other infrastructure, the damage done to the nation’s industrial base was less than that experienced by Continental European nations. The U.S., by contrast, never experienced a major attack following Pearl Harbor in 1941, and emerged from the war with its factories, mines, farms and mills intact and active. As economist Kenneth Rogoff points out, “After a war, the natural phase-down in military expenditures, combined with a surge of former soldiers into the workplace, makes it far easier to bring down debt-output ratios than after the kind of peace-time build-up we are now seeing.”<sup>386</sup>

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<sup>385</sup> Ibid, p. 252

<sup>386</sup> Rogoff, *‘No Need for a Panicked Financial Surge,’*

There have been cases where countries have managed to expand their economies and grow out of debt,

[B]ut this is not always possible. In the immediate aftermath of the Second World War growth and inflation were high enough to reduce the debt accumulated during the war years. But in recent decades this has not generally been the case. In fact, high debt is itself sometimes an impediment to growth, for instance because of the high taxes needed to finance the interest payments on the debt. The combination of high debt and low growth often leads to debt crises as investors lose confidence in the government's ability to service the debt.<sup>387</sup>

Economic growth alone cannot be relied upon to reduce a nation's debt and deficit. Even in times of economic prosperity, the desire and political will must exist for a nation to effectively tackle its problem of too much debt.

The nations of the world, at the end of 2023, were dealing with rising inflation along with aging populations. These are factors which must be considered when discussing the possibility of growing an economy out of debt.

The U.S. Congressional Budget Office, in the 2022 Long-Term Budget outlook, said it expects federal deficits to 2052 will generally grow each year, largely due to higher interest costs.<sup>388</sup> In 2022 and 2023, the CBO said, a rapid growth of nominal GDP will hold down the amount of debt relative to the nation's output. But in 2024 and after, debt is expected to rise above historic levels, and will continue to climb through 2052, when it is projected to reach 185% of GDP.<sup>389</sup> The CBO also said it sees rising costs for health programs and social security – “driven by the aging population and growth in health care costs per person” – pushing up federal outlays between 2025 and 2052.<sup>390</sup>

Many of the world's most developed nations are facing similar issues, making the possibility of growing out of debt by expanding their economies more difficult.

These facts should be kept in mind while studying the various ways in which a nation can tackle its debt problems. None of these solutions will be effective without the political ability and, more importantly, the political will to carry them out. As mentioned earlier, the discussion concerns not so much economic factors as the moral and ethical questions surrounding the responsibilities of lawmakers, and what is owed to society and progeny in justice.

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<sup>387</sup> Alesina, et. al., *Austerity: When it Works and When it Doesn't*, p. 2

<sup>388</sup> [www.cbo.gov/publications/57971](https://www.cbo.gov/publications/57971)

<sup>389</sup> Ibid

<sup>390</sup> Ibid

The following sections will look at some of the possible solutions to a nation's debt problems - inflation, default, austerity and debt forgiveness. Each solution will be analyzed through the lens of Catholic Social Teaching to weigh their positive and negative aspects and determine the desirability of each.

## **Inflation**

It is not necessary for a government to constantly borrow and roll-over its debt. Borrowing should be reserved for times of extraordinary crisis and to smooth over the times when a government's income has fallen below its outlays. At best, borrowing and carrying a debt should be short-term phenomena. Otherwise, the result is a situation similar to that seen today – continued rolling over of debt and no political will to attack the ever-increasing debt burden.

Given such a situation, it is tempting for lawmakers to resort to methods such as currency debasement or inflation to tackle their debt problems. The situation can be equated to a near occasion of sin, where conditions are prevalent which can readily lead one to commit sinful acts.

Past examples have been offered to show how the problems inherent with inflating or debasing currency affected the Roman Empire, the Spanish nation in the 16<sup>th</sup> and 17<sup>th</sup> centuries, and others. Even in those earlier times, the negative impact of such actions was known.

The scholastic mathematician and philosopher<sup>391</sup> Nicholas Oresmer, advised France's King Charles V against debasing the nation's currency. Articulating what later became known as "Gresham's Law," Oresmer told the king that "whenever the public currency was altered or tampered with in such a way as to bring into circulation two monies, bearing the same designation but in reality having two different values, the money of lower value inevitably drove the money of higher value out of circulation."<sup>392</sup>

Oresmer also noted "gold and silver, by such mutations and changes, shrink and diminish in a kingdom and in spite of all vigilance and prohibition that may be taken, they go abroad where they are accorded a higher value for, by adventure, men carry more voluntarily their monies to the places where they know they have a greater value."<sup>393</sup>

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<sup>391</sup> And later Count Bishop of Lisieux

<sup>392</sup> Balch, *'The Law of Oresmer, Copernicus and Gresham,'* p. 23

<sup>393</sup> Ibid

Two centuries later, writing for Poland's King Sigismund, Nicholas Copernicus said "money is in some sort a common measure of estimating values; but the measure must always be fixed and must conform to the established rule. Otherwise, there would be, necessarily, disorder in the state: buyers and sellers would at all times be misled." He also said "we see flourish the countries that possess a good currency, while those that only have a depreciated one fall into decadence and decline."<sup>394</sup>

Juan de Mariana, in his *A Treatise on the Alteration of Money*, argued that "the very act of currency debasement is *in itself* evil. (italics original) He thought this true "even if such acts had no apparent ill effects."<sup>395</sup> He also warned that "The act of defrauding people is, in each and every instance, *wrong* and consequently threatens the salvation of persons engaging in such activity."<sup>396</sup> (italics original)

Writing in the 16<sup>th</sup> and 17<sup>th</sup> centuries, de Mariana argued a king cannot change the value of money without the consent of the people, except in times of serious circumstance. Even then, the debasement cannot continue for longer than needed, de Mariana said, adding the king must make satisfaction with those who have suffered losses.<sup>397</sup>

In modern economies, an important role of the state is to ensure a stable and workable currency. As St. John Paul II wrote "Economic activity, especially the activity of a market economy, cannot be conducted in an institutional, juridical or political vacuum. On the contrary, it presupposes sure guarantees of individual freedom and private property, as well as a stable currency and efficient public services." (*Centesimus Annus*, 48)

In the encyclical, he also lauds the efforts of those who, after World War II, sought to "rebuild a democratic society inspired by social justice, so as to deprive Communism of the revolutionary potential represented by masses of people subjected to exploitation and oppression. In general, such attempts endeavor to preserve free market mechanisms, ensuring, by means of a *stable currency* (author's italics) and the harmony of social relations, the conditions for steady and healthy economic growth in which people through their own work can build a better future for themselves and their families." (*Centesimus Annus*, 19)

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<sup>394</sup> Ibid, p. 25

<sup>395</sup> De Mariana, *A Treatise on the Alteration of Money*, p xxvii

<sup>396</sup> Ibid, p. xxviii

<sup>397</sup> Ibid, p. 21

The problems surrounding the use of inflation to pay off existing debt are many. The question can be asked about the motives of a legislator or official who borrows money with the expectation that inflation will make it easier to repay. Especially in this case, where the official or politician is in a position to influence a country's monetary policy and actually create the expected inflation, it can be argued this act of borrowing and anticipating making the repayment in an inflated or debased currency is tantamount to theft. The borrower in the transaction is entering the deal with the intention of returning to the lender less than was borrowed. The fact the borrower is living up to the strict wording of the contract doesn't mitigate the fact that her intention is to return less value than was given.

Among the many negative impacts of inflation upon a nation's economy is the effect it has on the purses of the middle and lower economic classes. Every increase in inflation not compensated with a pay increase reduces the purchasing power of those who rely primarily on wages to make their living.

St. Leo XIII, in *Rerum Novarum*, emphasized the importance of ensuring that a worker's wages were fair, adequate and paid on time. He wrote

Let the working man and the employer make free agreements, and in particular let them agree freely as to the wages; nevertheless, there underlies a dictate of natural justice more imperious and ancient than any bargain between man and man, namely, that wages ought not to be insufficient to support a frugal and well-behaved wage-earner. If through necessity or fear of a worse evil the workman accept harder conditions because an employer or contractor will afford him no better, he is made the victim of force and injustice. (*Rerum Novarum*, 45)

Further, he says "to defraud any one of wages that are his due is a great crime which cries to the avenging anger of Heaven." (*Rerum Novarum*, 20). He then quotes *James 5:4*, "Can you hear crying out against you the wages which you have kept back from the labourers mowing your field? The cries of the reapers have reached the ears of the Lord Sabaoth."

In *Centesimus Annus*, St. John Paul II pointed out the importance of a government protecting the wage earner. He wrote "The richer class has many ways of shielding itself, and stands less in need of help from the State; whereas the mass of the poor have no resources of their own to fall back on, and must chiefly depend on the assistance of the State. It is for this reason that wage-earners, since they mostly belong to the latter class, should be specially cared for and protected by the Government." (*Centesimus Annus*, 10)



In *Laborem Exercens*, he says “the ‘poor’ appear under various forms; they appear in various places and at various times; in many cases they appear as a *result of the violation of the dignity of human work* (author’s italics): either because the opportunities for human work are limited as a result of the scourge of unemployment, or because a low value is put on work and the rights that flow from it, especially the right to a just wage and to the personal security of the worker and his or her family.” (*Laborem Exercens*, 8)

The importance of a workman’s wage is mentioned several times in the Bible. In Leviticus 19:13, we read “You will not exploit or rob your fellow. You will not keep back the labourer’s wage until the next morning.” In Malachi 3:5, the Lord warns he will be “a ready witness against sorcerers, adulterers, perjurers, and against those who oppress the wage-earner, the widow and the orphan.” In Romans 4:4. We are reminded “when someone works, the wages for this are not considered as a favor but as a due.” And in Luke 10:7, Jesus says “the labourer deserves his wages.”

Given the importance of a just and adequate wage, it would seem any policy which reduces the purchasing power of that wage – for instance, stoking inflation to more easily pay down existing debt – raises a moral question. To deliberately reduce the assets of a lender by repaying them in inflated currency is theft. To reduce the assets of wage-earners causes pain and suffering among the families who are left to decide whether to pay “for food or rent,” as the saying goes.

History is rife with examples of nations which suffered politically, economically and socially when stricken with inflation.

Inflation destroys expectations and creates uncertainty; it increases the sense of injustice and causes alienation. It prompts behavioral responses that reflect a generalized shortening of time horizons. “Enjoy, enjoy” – the imperative of our time – becomes a rational response in a setting where tomorrow remains insecure and where the plans made yesterday seem to have been made in folly. As we have noted, inflation in itself introduces and/or reinforces an anti-business and anti-capitalist bias in public attitudes, a bias stemming from the misplaced blame for the observed erosion in the purchasing power of money and the accompanying fall in the value of accumulated monetary claims.<sup>398</sup>

Writing about the hyperinflation experienced in Germany between the World Wars, Adam Ferguson said

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<sup>398</sup>Buchanan and Wagner, *Democracy in Deficit: The Political Legacy of Lord Keynes*, p. 67

...inflation aggravated every evil, ruined every chance of national revival or individual success and eventually produced precisely the conditions in which extremists of Right and Left could raise the mob against the state, set class against class, race against race, family against family, husband against wife, trade against trade, town against country. It undermined national resolution when simple want or need might have bolstered it .... It promoted contempt for government and order. It corrupted even where corruption had been unknown, where it should have been impossible.<sup>399</sup>

Regarding the effect inflation had upon social cohesion, he stated “It was natural that a people in the grip of raging inflation should look about for someone to blame. They picked upon other classes, other races, other political parties, other nations.”<sup>400</sup>

Inflation, by reducing the real value of a currency, is in essence a transfer of wealth from savers to spenders. The value of one’s existing money is reduced, while one’s existing debt becomes easier to pay off as post-inflation currency floods into the market.

The ill effects of inflation upon a nation and its people have long been recognized. “Lenin is reputed to have said that the best way to destroy a capitalist society is to debauch its currency – indeed, it’s probably the best way to destroy any society, because high inflation arrays a government against its citizens.”<sup>401</sup> However, when faced with problems of crippling debt, nations have resorted to debasing their currency and trying to inflate their way out of debt.

In some cases, inflation may even be a desirable option from the point of view of politicians, as they can escape blame for their mishandling of a nation’s finances or retire older debt which they had no hand in creating. Oresme wrote that currency debasement “is not so soon felt nor seen by the people, as it would be another tax, and nevertheless no such nor similar can be more grievous or greater....”<sup>402</sup>

James Buchanan and Richard Wagner wrote “... individuals do not sense inflation to be a tax on their money balances; they do not attribute the diminution of their real wealth to the legalized “counterfeiting” activities of govt. Rather, the sense data takes the form of rising prices for goods and services purchased in the private sector. The decline in real wealth is attributed to failings in the market economy, not to governmental money creation.”<sup>403</sup>

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<sup>399</sup> Ferguson, *When Money Dies*, p. 3-4

<sup>400</sup> Ibid, p. 69

<sup>401</sup> Samuelson, *The Great Inflation and its Aftermath*, p. 20

<sup>402</sup> *The Law of Oresme, Copernicus and Gresham*, p. 23

<sup>403</sup> Buchanan and Wagner, p. 148

They also point out that the U.S. is in a special situation insofar as it borrows exclusively in its own currency, which serves as the reserve currency for the world economic system.

While deliberately inflating away debt was not a possible solution for nations in the euro zone, it remains an option for other nations which are not tied to a common currency union and which borrowed in their own currency. “Default through inflation of the money stock is more likely than default through explicit repudiation, especially for those governments that have issued debt normally defined in their own currencies.”<sup>404</sup>

A nation that has borrowed exclusively in its own currency can always print enough money to cover its debts. This is one of the ideas behind Modern Monetary Theory. “The most important conclusion reached by MMT is that the issuer of a currency faces no financial constraints. Put simply, a country that issues its own currency can never run out and can never become insolvent in its own currency. It can make all payments as they come due.”<sup>405</sup>

But MMT, which applies to only a few nations on Earth, should not be seen as *carte blanche* to spend foolishly. For instance, MMT suggests

... affordability per se cannot be an issue for a sovereign government, and neither can sustainability in the sense that government can always make payments as they come due, no matter how large they become. However, if the debt to GDP ratio continuously grew, and interest payments on the debt grew faster than national income, while affordability cannot be an issue, the crowding out of other types of important government spending would be a concern.<sup>406</sup>

L. Randall Wray pointed out that “In a lot of ways, government spending on interest is very inefficient. It can be regressive, a lot of it can go abroad, so you’re not stimulating your own economy, so it’s a very inefficient kind of government spending and so I and other MMT people do personally think that we don’t want to spend a lot on interest.”<sup>407</sup>

Another economist associated with Modern Monetary Theory, Stephanie Kelton, said “Evidence of a deficit that’s too big would be inflation, but a deficit can also be too small. It can be too small to support demand in the economy. And evidence of a deficit that is too small in unemployment.”<sup>408</sup>

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<sup>404</sup> Buchanan, et. al., *Deficits*, p. 191

<sup>405</sup> Mitchell, et. al., *Macroeconomics*, p. 13

<sup>406</sup> Ibid, p. 356

<sup>407</sup> Wray, “Everything You Want to Know About Modern Monetary Theory”

<sup>408</sup> Kelton, “Bernie Sanders’ 2016 Advisor on Trump’s Economy and Modern Monetary Theory”

There are many other aspects to MMT, including its emphasis on the importance of providing work to those willing to work and the social aspects of economic decision-making, which are of interest in any theological study of the economy. However, they are not within the purview of this work. Suffice it to say that MMT is not a silver bullet which will lead to the resolution of any nation's long-term debt and deficit problems.

### **Default**

If a nation finds itself unable or unwilling to service its debt, the option of defaulting on that debt always exists. This is a most extreme step to take and can have a severe negative impact on a nation and its populace for years or even decades to come.

A nation which defaults on its debt will often find itself locked out of international markets and unable to raise new debt, as has been the case with Argentina and many others. After Argentina defaulted on its debt multiple times in this century alone, it continued to seek aid from the IMF and World Bank. Argentina's debt burden was increased as it continued to borrow from these international bodies.

As history has shown, a nation defaulting on its debt opens itself to intervention from foreign nations seeking to force repayment of money they or their banks and citizens loaned the defaulting country. The history of Africa, Latin America and Europe is rife with examples of foreign nations seizing natural resources, revenue streams and other assets in an effort to see their citizens repaid. Defaulting on any debt is a severe affront to justice and the social order, especially on an international level. The lender is deprived of what is rightly their due by a government's refusal or inability to repay its debts.

The consequences are so severe that a nation is unlikely to default unless it sees no other alternative. However, circumstances may come about where the decision to default is seen as the most desirable. "As debt-financed public consumption continues, as interest charges mount, and at an increasing rate, the collectivity, in its potential embodiment, will come to be increasingly attracted by the prospects of wiping out, at one fell swoop, the major liability item on the governmental balance sheet."<sup>409</sup>

Defaulting on debt is a breach of commutative and distributive justice and, if it creates conditions for social unrest, can also impact social justice. Lenders impacted by default are not

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<sup>409</sup>Buchanan, et. al. p. 190

only large banks or international organizations. Especially in cases of internal default, such as Russia in 1998, the holders of bonds could be citizens, pension funds and local banks.

Russia's default came as the country was dealing with the collapse of the Soviet Union. The end of the Soviet Union was brought about by a number of factors, many of which were economic. The Soviet system, which worked to build Russia from an agricultural to an industrial power, was marked by several flaws. For one thing, the system "could not, for the most part, innovate. In fact, there was a strong predisposition to avoid change of any kind, for change caused enormous bureaucratic headaches."<sup>410</sup> The Soviet Union suffered from other economic woes, including a lack of access to hard currency and its inability to produce goods which would sell in international markets.

While the 1973 oil embargo brought its economy some relief, the Soviet model continued to stagger. The collapse of oil prices in 1986, along with pressure from its Cold War adversaries, hastened the end of the Soviet Union. The Soviet government sought to bolster its economy by borrowing.

The Soviet Union has borrowed \$6 billion from Western banks in the last two years to cover shortfalls in hard currency caused by a weak dollar and declining world oil prices, according to Central Intelligence Agency studies and other papers published today [1987]. Strains on the Soviet economy from unfavorable international and domestic forces and from military demands were detailed in two volumes published by the Joint Economic Committee of Congress.<sup>411</sup>

The successor Russian government in 1998 faced a number of problems, including "corruption, the dominant position of the oligarchs and the flimsy foundation of many banks."<sup>412</sup> Other issues included a low rate of tax collections, which led the government to resort to short-term borrowing. "The burden of interest payments grew dangerously. As the ratio of debt to budget proved, government finances were highly vulnerable."<sup>413</sup> As the country's economic crisis deepened the government's high debt ratio was hampering its efforts to deal with the issue. And with the ruble pegged to foreign currencies, "Russia was unable to finance through seignorage."<sup>414</sup> Adding to the country's problems was a political crisis of confidence in the

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<sup>410</sup> Yergin and Stanislaw, *Commanding Heights*, p. 280

<sup>411</sup> Farnsworth, 'Soviets Borrow Heavily as Oil and Dollar Fall' I

<sup>412</sup> Yergin and Stanislaw, *Commanding Heights*, p. 302

<sup>413</sup> Ibid

<sup>414</sup> Ibid

nation's leadership. "Boris Yeltsin had lost much of the credibility and legitimacy he gained as the man who had taken on the Soviet system and stood up to the Communist tanks. He had become, instead, an erratic, unpredictable, isolated politician, afflicted with ill health and able, it was said, to work only two to four hours a day."<sup>415</sup>

As investor confidence sank among both Russian and foreign financiers, the country's stock market was pummeled, losing 75% of its value from January to August.<sup>416</sup> The government was forced to undertake dramatic action to try and turn the tide.

On Monday, August 17, Russia declared a debt moratorium. The government simply decided it would rather use its rubles to pay Russian workers instead of Western bondholders. Nor would it attempt to maintain the value of those rubles in foreign markets. In short, it was a devaluation and, on at least some of its borrowings, a default from a government that had promised that it would do neither. Enigmatic to the end, Russia said its moratorium would apply to \$13.5 billion of local (ruble) debt – breaking the rule, honored even in the depths of the Latin American debt crisis, that a government honors its own coin.<sup>417</sup>

While Russia in the 1990s wasn't an economic superpower, neither was it on a level with the poorest nations of Africa or Latin America. The sight of a nuclear power defaulting on its debts began to raise doubts in the minds of many about the safety of government debt, which had previously been thought of as among the most reliable of all assets.

### **Austerity**

The arguments against inflating away debt revolve around the fact that deliberately stoking inflation is tantamount to theft, and around the fact that nations experiencing severe inflation see their citizens suffering from material want and loss, as well as an erosion of normal social values.

This idea of preventing or alleviating suffering caused by excess government debt has long been a part of Catholic Social Teaching, albeit one not often explored prior to the latter years of the 20<sup>th</sup> century.

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<sup>415</sup> Ibid, p. 302-3

<sup>416</sup> Chiodo and Owyang, *A Case Study of a Currency Crisis: The Russian Default of 1998*

<sup>417</sup> Lowenstein, *When Genius Failed*, p. 144

In *Mater et Magistra*, St. John XXIII wrote “Justice and humanity demand that those countries which produce consumer goods, especially farm products, in excess of their own needs should come to the assistance of those other countries where large sections of the population are suffering from want and hunger. It is nothing less than an outrage to justice and humanity to destroy or to squander goods that other people need for their very lives” (*Mater et Magistra*, 161). In *Pacem in Terris*, he reminded readers of his earlier concern, saying “We appealed to the more wealthy nations to render every kind of assistance to those States which are still in the process of economic development.” (*Pacem in Terris*, 161)

In 1987, the Pontifical Commission “Iustitia et Pax” published “*At the Service of the Human Community: An Ethical Approach to the International Debt Question*.” In it, they wrote “Debtor countries, in fact, find themselves caught in a vicious circle. In order to pay back their debts, they are obliged to transfer even greater amounts of money outside of the country. These are resources which should have been available for internal purposes and investment and therefore for their own development.” They asked “is it not imperative to start working on a new system of aid from the industrialized countries to the less prosperous ones, in the interests of all and especially because it would mean restoring hope to suffering populations?”<sup>418</sup>

In *Tertio Millennio Adveniente*, St. John Paul II, discussing the upcoming jubilee year and the prospects of debt relief for poorer nations, said “thus, in the spirit of the Book of Leviticus (25:8-12), Christians will have to raise their voice on behalf of all the poor of the world, proposing the Jubilee as an appropriate time to give thought, among other things, to reducing substantially, if not cancelling outright, the international debt which seriously threatens the future of many nations.” (*Tertio Millennio Adveniente*, 51) In a message to the Jubilee 2000 Debt Campaign, he wrote “Debt relief is, of course, only one aspect of the vaster task of fighting poverty and of ensuring that the citizens of the poorest countries can have a fuller share at the banquet of life. Debt relief programs must be accompanied by the introduction of sound economic policies and good governance.”<sup>419</sup>

In Chapter 5, “Theological Responses to the Debt Crisis,” it was pointed out that concerns over the debt of poorer nations focused on how excess debt hampered development,

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<sup>418</sup> Pontifical Commission Iustitia et Pax, *At the Service of the Human Community: An Ethical Approach to the International Debt Question*

<sup>419</sup> John Paul II, ‘Message of the Holy Father to the Group “Jubilee Debt 2000 Campaign”’

caused suffering among the populace and impeded the proper function of government. Today, the debt problems faced by many of the world's more developed nations threaten their societies in the same way.

In modern Europe, as a result of the Financial Crisis and the Great Recession, many of the most indebted euro zone nations undertook a series of austerity measures to enable them to properly service their existing debt obligations. These programs saw a decline in government spending for social services, but did little to actually reduce the debt owed by these nations.

The trend toward higher debt continued across the globe. The European Union, for example, had a debt/GDP ratio of 60.1% at the turn of the century.<sup>420</sup> That number jumped following the Financial Crisis of 2008.

Government budgets, which were already structurally weak, worsened significantly with the start of the financial crisis, in many cases because governments had to foot the bill for distressed financial institutions. Ireland was the most striking example: it moved from a budget surplus in 2007 to a 32% of GDP deficit in 2010. The average budget deficit in the EU more than tripled between 2007 and 2008, reaching 6.3% of GDP in 2009. As a consequence, debt ratios jumped: from 65% to 94% in the euro area.<sup>421</sup>

Debt to GDP ratios are numbers and do little to reflect the suffering experienced by the population of a country dealing with financial crisis. Other numbers, such as unemployment rates, wages, taxes and government expenditures can help to paint a fuller picture, but even they cannot fully reflect the impact of a job loss, or the loss of a home or business.

Populations of countries which are dealing with excess debt problems often suffer as their governments cut spending or impose new taxes to raise revenue to service their debt. Yanis Varoufakis, a former finance minister of Greece, said following the Financial Crisis and his country's adoption of an austerity regime "The wave of suicides triggered by the Greek depression had caught the attention of the international press ... after Dimitris Christoulas, a 77-year-old retired pharmacist, shot himself dead by a tree in the middle of Athens' Syntagma Square, leaving behind a heart-wrenching political manifesto against austerity."<sup>422</sup>

He also wrote

To put Greek austerity into perspective; in the two years that followed Greece's "rescue," Spain, another eurozone country caught up in the same mess, was treated to austerity which

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<sup>420</sup> [Tradingeconomics.com/European-union/government-debt-to-gdp](http://Tradingeconomics.com/European-union/government-debt-to-gdp)

<sup>421</sup> Alesina, et. al., *Austerity: When it Works and When it Doesn't*, p. 120

<sup>422</sup> Varoufakis, *Adults in the Room*, p. 9



amounted to a 3.5% reduction in government expenditure. During the same two-year period, 2010 to 2012, Greece experienced a tremendous 15% reduction in government spending. To what effect? Spain's national income declined by 6.4% while Greece's fell by 16%.<sup>423</sup>

Ireland's experience with austerity following the Financial Crisis came as after the country's property markets collapsed in 2008. Ireland committed large sums to save its banking system and agreed to a bailout deal with the EU and IMF which contained severe austerity measures. Even as the country made ready to exit the bailout program in 2013, Michael Noonan, the country's finance minister, said Ireland would continue with austerity as its debts were still too high.<sup>424</sup>

The "real heroes" of the bailout are the Irish people who were forced to take pay cuts as the government struggled to resolve the debt crisis, Mr. Noonan said. People who lost their jobs, or who were forced to emigrate during "the catastrophe," had suffered most, he added. Nonetheless, the government remains committed to austerity measures and "must continue with the same type of policies" because its budget deficit and debt levels are still too high.<sup>425</sup>

Given the benefit of hindsight, the question can be asked as to whether these programs were necessary, what purpose they were established to achieve and whether they achieved those goals. Also, with the benefit of hindsight, one can question whether such measures should be taken in the future, given the negative effects caused by austerity on the people whose lawmakers choose that path.

Why would a nation choose to follow an austerity program? In Europe during the early 21<sup>st</sup> century, austerity plans were followed by nations which were heavily indebted, and which were members of the euro zone, using the common currency and under the umbrella of the European Central bank.

Some have suggested that the ECB was acting to prevent the economic problems in these countries from adversely impacting Europe's banks. Former Greek Finance Minister Yanis Varoufakis said

Europe's banks were managed so atrociously in the years preceding 2008 that the insane bankers of Wall Street looked almost good by comparison. When the crisis hit, the banks of France, Germany, the Netherlands and the U.K. had exposure in excess of \$30 trillion, more than twice

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<sup>423</sup> Ibid, p. 34

<sup>424</sup> Quinn, 'Ireland Still Tethered to Austerity as it Exits Bailout'

<sup>425</sup> Ibid

the U.S. national income, eight times the national income of Germany and almost three times the national income of Britain, Germany, France and Holland put together.<sup>426</sup>

He also said

The credit crunch of 2008 that followed Wall Street's collapse bankrupted Europe's bankers who ceased all lending by 2009. Unable to roll over its debts, Greece fell into its insolvency hole later that year. Suddenly, three French banks faced losses from peripheral debt at least twice the size of the French economy. Numbers provided by the Bank of International Settlements reveal a truly scary picture" for every 30 euros they were exposed to, they had access to only one.<sup>427</sup>

And there are those who argue that austerity programs did not accomplish their primary goal of reducing a nation's debt. Writing in 2013, Mark Blyth pointed out that "Irish debt to GDP was 32% in 2007. Today it stands at 108.2% *after three years of austerity.*" (original italics.)<sup>428</sup>

Other alternatives, such as a restructuring of Greece's debt, weren't pursued.

Some argue that this was because of the fear that a default on Greek debt might have generated contagion to other countries, such as Italy, Spain, Portugal and Ireland. An alternative, more cynical, view is that French and German banks (the ones that provided much of the lending to Greece) would have suffered significant losses that would eventually be passed on to French and German taxpayers. Probably both arguments were at play. In the end, the EU called the IMF, after some hesitation and confusion, and a first austerity plan accompanied by financial support was put in place.<sup>429</sup>

It is not the role of the theologian to argue whether austerity was the best course to pursue, but rather to remind the politicians and officials responsible for making such decisions that they cannot only rely on cold economic calculation when deciding the fate of a nation and its people. The theologian can also remind lawmakers that austerity would likely not be necessary if governments prudently managed their debt and finances. This is not to say that a government can never borrow, but rather to state that a government which continually borrows and does not act to reduce the size of its debt burden acts imprudently, creating conditions which may hamper its ability to properly function in the future and which are contrary to ideas of intergenerational justice.

The argument has been made

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<sup>426</sup> Varoufakis, *Adults in the Room*, p. 28

<sup>427</sup> Ibid, p 23-4

<sup>428</sup> Blyth, *Austerity: The History of a Dangerous Idea*, p. 236

<sup>429</sup> Alesina, et. al., *Austerity: When it Works and When it Doesn't*, p. 151

If governments followed adequate fiscal policies most of the time, we would almost never need austerity. Economic theory and good practice suggest that a government should run deficits during recessions – when tax revenues are low and government spending is high as a result of the working of fiscal stabilizers such as unemployment subsidies – and during periods of temporarily high spending needs, say because of a natural calamity or a war. These deficits should be balanced by surpluses during booms and when spending needs are low. In addition, forward-looking governments might want to accumulate funds for “rainy days” to be used when spending needs are temporarily and exceptionally high. If governments followed these prescriptions, austerity would never be needed.

Instead, periods of austerity are relatively common, for two reasons. First, most governments do not follow the foregoing prescriptions: deficits often accumulate even when the economy is growing and the deficits produced during recessions are not compensated for by surpluses during booms. As a result, many countries have accumulated large public debts even in perfectly “normal” times.<sup>430</sup>

It is this accumulation of debt during “normal” times which is imprudent. A proper understanding of humanity’s role as stewards of the Earth, which includes not just natural resources but also the economy, would preclude the continual, unnecessary accumulation of debt and deficit with no consideration given to repayment and reduction.

At the same time, it must be understood that following a program of austerity might be the proper course to correct the consequences of earlier economic decisions.

In “A Jubilee Call for Debt Forgiveness,” the United States Council of Catholic Bishops put forth the idea that in certain situations, a government may engage in stabilization policies which, in the short run, may “have a strongly negative impact on the poor, such as when health, education, welfare, and other social expenditures are cut back in order to meet targets for reducing fiscal deficits.”<sup>431</sup> It also says “These policies can also result in cutbacks in government funds for environmental protection, regulatory oversight, and land reform.”<sup>432</sup>

The reason such a move would be countenanced is because “In the long run ... structural adjustment and stabilization policies may help a country become more competitive in the global arena and thus could create opportunities for economic growth and job creation.” While such structural changes are being brought to fruit, however, it must be remembered that society must “Make adequate provisions for the poor who will suffer.”<sup>433</sup>

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<sup>430</sup> Ibid., p. 1

<sup>431</sup> U.S. Conference of Catholic Bishops, *A Jubilee Call for Debt Forgiveness*, Part III, Sec. 5

<sup>432</sup> Ibid

<sup>433</sup> Ibid

If it is to be done, however, it must be done for only the most severe of circumstances. Pope Benedict XVI said “Lowering the protection accorded to the rights of workers, or abandoning mechanisms of wealth redistribution in order to increase the country’s international competitiveness hinders the achievement of lasting development. Moreover, the human consequences of current tendencies towards a short-term economy – sometimes very short-term – need to be carefully evaluated.” (*Caritas in Veritate*, 32)

### **Debt Forgiveness**

When a nation finds itself in such straits, it can, instead of defaulting, ask to have its debt reduced or forgiven. As discussed earlier, in the years leading up to the turn of the century, John Paul II and others discussed the idea of a “Jubilee Year,” in the tradition of the Old Testament. The debts of the world’s poorest nations would be reduced or forgiven, in an effort to alleviate the suffering of those nations’ people.

While debt forgiveness is the merciful course to take, it is difficult to apply in every situation. In the case of private banks and financial firms, for instance, the decision-makers are often not the owners of the money which has been loaned. As stewards of the money, they are obligated to work hard to be made whole, so their investors do not suffer a loss. While it is possible for the officials of a bank or firm to decide to forgive a nation’s debt, such a decision may not be in the best interests of the shareholders who, in justice, deserve to have their loan repaid. This is not to say shareholders cannot decide to pursue a course of forgiving some or all debt owed to their company. If, through a shareholder resolution or similar instrument they vote to forgive a nation’s debt, they would have acted in a merciful manner.

Similarly, the forgiveness of debt on a government level can only be implemented and carried out by those officials who, under that nation’s laws, have the right and responsibility to do so. When debating the decision, lawmakers should examine the issue from both a moral and economic perspective. The multi-faceted elements of the problem deserve a multi-faceted response.

But even debt forgiveness is not a perfect solution. For example, “From 1989 to 1997, debt forgiveness for the 41 nations now designated as HIPC’s reached \$33 billion, while new borrowing for the same countries totaled \$41 billion.”<sup>434</sup>

And, as mentioned above, even if a nation’s debt is forgiven, that is no assurance lenders will be ready to work with it again.

It is true that forgiving old debt makes the borrowers more able to secure new debt, which in theory could make them attractive to lenders. Nevertheless, the commercial and official lenders who offer financing at market interest rates will not want to come back to most HIPC’s any time soon. These lenders understand all too well the principle of moral hazard: Debt relief encourages borrowers to take on an extreme amount of new loans, expecting that they too will be forgiven.<sup>435</sup>

### **Pre-Emptive Actions**

So far, the discussion on solutions to the problem of too much debt has focused, for the most part, on actions governments may take after debt has been procured. But an understanding of the nature of debt and government spending, along with ideas of stewardship and intergenerational justice, suggests that the discussion be expanded to include actions which can be taken before debt is accumulated, with an eye toward avoiding future problems.

It is the responsibility of the current generation, as was discussed, to ensure that the goods of the Earth, both man-made and God-given, be preserved for use by future generations. This is the idea behind the theological arguments made in *Laudato Si’* and other Church documents calling for action to prevent or mitigate the effects of climate change on future generations. Likewise, efforts should be made to minimize or eliminate the impact of present spending on those same future generations.

The concerns of intergenerational justice are part of the debt debate, not only as a matter of stewardship, but also concerning the government programs which promise health services and income in the form of social security payments or pensions. As mentioned, the demographic trends in the world’s most developed nations have shown a decline in population growth. Indeed, in some countries, growth has slowed so dramatically that births have fallen below 2.1 children per woman, what demographers call “replacement level fertility.” This has serious implications

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<sup>434</sup> Easterly, *‘Debt Relief,’* p. 21

<sup>435</sup> *Ibid*, p. 24

for the social security programs in the world's developed nations, as more and more retirees live longer and draw on the contributions of fewer and fewer workers.

What follows is not meant to advocate for any specific policies or to suggest certain plans are more or less moral than others. Rather, it is to show that some thought has been given to the idea of crafting policies that aim to constrain government spending by the current generation with an eye toward acting with justice toward those yet to come.

Concerning government pensions, healthcare and social security programs, it has been suggested that such programs could be pre-funded. Philip Booth said

Systems of pay-as-you-go social insurance have, and will continue to, create intergenerational conflict. This should not be a party political or a philosophical issue. It is possible to have pre-funding of pensions and healthcare with any amount of or combination of private and state involvement. This matter, however, is one of inter-generational distributive justice, which has been compared with climate change by the former Irish Prime Minister John Bruton.<sup>436</sup>

Given the momentum toward larger debts and continuing deficits, some have called for constitutional constraints on government spending. In *Deficits*, Buchanan and his co-authors wrote “The inability of legislatures to reduce government spending is central to the deficit problem. Even in the face of fiscal crisis, national and state expenditures in the U.S. are resistant to cutbacks.”<sup>437</sup>

One suggested solution is to change the U.S. Constitution by adding a balanced budget amendment. In February of 2021, U.S. Senators Mike Crapo and Jim Risch introduced such an amendment before the U.S. Congress. The proposed amendment would require the president to submit a balanced budget and require Congress to pass a balanced budget. The amendment also contains mechanisms to raise taxes and the debt limit if necessary.<sup>438</sup>

Such a constraint would, in essence, act as a brake on politicians' tendencies to finance spending through borrowing, rather than taxation, by removing the ability to do so. In this way, we see legislation substituting for the moral belief that one shouldn't borrow and leave repayments to progeny. Law would become a substitute for a moral rule.

In *Deficits*, we read “Moral rules, like more formal legal rules, are public capital, and they may carry positive weights in a properly constructed national balance sheet. Investment in

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<sup>436</sup> Booth, *Written evidence submitted to U.K. Parliament by Prof. Philip Booth, Aug. 2020*

<sup>437</sup> Buchanan, et. al. *Deficits*, p. 281

<sup>438</sup> [www.crapo.senate.gov/media/newsreleases/crapo-risch-introduce-balanced-budget-amendment](http://www.crapo.senate.gov/media/newsreleases/crapo-risch-introduce-balanced-budget-amendment)

some replacement rules or constraints, even if these would have to be more formal and be made legally constitutionally binding on political behavior, would seem to be suggested, once a positive capital value is placed on previously existing moral constraints.”<sup>439</sup>

Further, it is pointed out “Once an ethical standard has been eroded, however, it is difficult to recapture, at least at the ethical level. This suggests the desirability of imposing an explicit restraint on the political process, which requires the matching of expenditures with tax revenues except under exceptional circumstances.”<sup>440</sup>

U.S. Senator Tom Coburn pointed out “The reality is the debt bomb was built up by a culture, and it will have to be defused by a culture. As a nation, we have to make a decision to live within our means and embrace a government we can afford, not one we want.”<sup>441</sup>

## Conclusion

Solutions can be crafted to address the issue of too much debt. But these solutions must be crafted and carried out by men and women who act with virtue and with justice, and who understand the proper role and the true nature of humanity. These men and women must have well-trained consciences, a right understanding of their roles as stewards of the earth and the economy and, most importantly, the courage to act.

The role of the Church, and of its theologians and thinkers, is to help strengthen and guide these political actors as they go about their tasks. It is to remind them that the ultimate end of every person and of all mankind is union with God in the life to come. As the Church teaches, “The human person cannot and must not be manipulated by social, economic or political structures, because every person has the freedom to direct himself towards his ultimate end.”<sup>442</sup>

There are ways to examine economic issues which take into account the entirety of human reality. The problem cannot be looked at purely through the lenses of economic calculation, broken down into who gets what and how much. The nature of humanity’s existence is such that to fully evaluate a problem such as debt forgiveness or repayment, one must look at how decisions will affect the actual day-to-day existence of human beings.

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<sup>439</sup> Buchanan, et. al., *Deficits*, p. 185

<sup>440</sup> Ibid, p. 307

<sup>441</sup> Coburn and Hart, *The Debt Bomb*, p. 278

<sup>442</sup> Pontifical Commission Iusticia et Pax, *Compendium of the Social Doctrine of the Church*, 48

In the apostolic exhortation *Evangelii Gaudium*, Pope Francis wrote “Just as the commandment “Thou shalt not kill” sets a clear limit in order to safeguard the value of human life, today we also have to say “thou shalt not” to an economy of exclusion and inequality. Such an economy kills. How can it be that it is not a news item when an elderly homeless person dies of exposure, but it is news when the stock market loses two points?” (*Evangelii Gaudium*, 53)

He added “ Behind this attitude lurks a rejection of ethics and a rejection of God. Ethics has come to be viewed with a certain scornful derision. It is seen as counterproductive, too human, because it makes money and power relative. It is felt to be a threat, since it condemns the manipulation and debasement of the person. In effect, ethics leads to a God who calls for a committed response which is outside the categories of the marketplace.” (*Evangelii Gaudium*, 57)

John Paul II wrote “As far as the Church is concerned, the social message of the Gospel must not be considered a theory, but, above all else, a basis and motivation for action.” He added “Today more than ever, the Church is aware that her social message will gain credibility more immediately from the witness of actions than as a result of its internal logic and consistency.” (*Centesimus Annus*, 57)

Paul VI taught “In the social sphere, the Church has always wished to assume a double function: first to enlighten minds in order to assist them to discover the truth and to find the right path to follow amid the different teachings that call for their attention; and secondly to take part in action and to spread, with a real care for service and effectiveness, the energies of the Gospel.” (*Octogesima Adveniens*, 48) He also said “In concrete situations, and taking account of solidarity in each person's life, one must recognize a legitimate variety of possible options. The same Christian faith can lead to different commitments. The Church invites all Christians to take up a double task of inspiring and of innovating, in order to make structures evolve, so as to adapt them to the real needs of today.” (*Octogesima Adveniens*, 50)

Given the circumstances facing the world, the Church must continue to teach politicians about the proper use of the tool that is government debt and continue to hold a dialogue about how the world's nations can work to alleviate the pain caused by excess debt, in both less-developed and more-developed nations. Though much has been written about the impact of too much government debt, less has been written about the moral issues which should be considered before a government borrows. The recent financial disruptions resulting from Covid-19 may act



to spur more thought on the matter. Or, it may take a future financial crisis to spark a reckoning of this issue.

In 2018, the Congregation for the Doctrine of the Faith and the Dicastery for Promoting Integral Human Development wrote

The recent financial crisis might have provided the occasion to develop a new economy, more attentive to ethical principles and a new regulation of financial activities that would neutralize predatory and speculative tendencies and acknowledge the value of the actual economy. Although there have been many positive efforts at various levels, which should be recognized and appreciated, there does not seem to be any inclination to rethink the obsolete criteria that continues to govern the world.<sup>443</sup>

In the wake of the Covid-19 pandemic and the subsequent economic disruption, there are many calling for people to rethink our assumptions about economic systems and policies, with an eye toward making those systems better serve all of mankind. The social and economic fallout from the Covid-19 pandemic might offer the crisis which will compel indebted governments to consider policy changes which will slow the growth of debt and reduce the size of their deficits.

The challenge is to craft an economy which is sound, just and proper. It is to craft an economic system which recognizes and provides for man's ultimate destiny. The Church's influence and its Catholic Social Teaching can serve as a guide as the world works to make that system.

As St. John XXIII wrote

This is the plea, Venerable Brothers, that we make at the close of this Letter, to which we have for a considerable time directed our concern about the Universal Church. We desire that the divine Redeemer of mankind, "who has become for us God-given wisdom, and justice, and sanctification, and redemption" (1 Cor 1:30) may reign and triumph gloriously in all things and over all things, for centuries on end. We desire that, in a properly organized order of all social affairs, all nations will at last enjoy prosperity, and happiness, and peace. (*Mater et Magistra*, 263)

It is then that we can achieve the wish of St. Paul VI, who asked "That all the children of men may lead a life worthy of the children of God." (*Populorum Progressio*, 82)

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<sup>443</sup> Congregation for the Doctrine of the Faith and the Dicastery for Promoting Integral Human Development *Oeconomicae et pecuniariae quaestiones* (Considerations of an ethical discernment regarding some aspects of the present economic-financial system), 5

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