

Government debt and the enslavement of future generations



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'Blessed are the young, for they shall inherit the national debt.'

Herbert Hoover

Introduction

The Global Financial Crisis of 2007–09 resulted in a step shift upwards in government debt as states became 'borrowers of last resort' to prevent another Great Depression. Governments borrowed in peacetime as if they were fighting an existential war to save their debt-based financial systems from implosion. Over the past decade, despite the longest recorded US recovery and the lowest interest rates in history,¹ Western countries have struggled to control their borrowing and are now confronted with high or record levels of peacetime debt. Aging and shrinking populations and low income growth mean that there is no assurance that coming generations will enjoy the higher incomes needed to service that debt.

How have we arrived at this sorry state of affairs? And, more deeply, how can we revive a sense of stewardship and fiscal responsibility, to leave the government's finances in a healthier state for future generations? This article will seek to discern God's wisdom revealed through Scripture on the vexed question of debt and stewardship and apply it to how Christians should think about government borrowing today.

The hole we have dug

Government deficits and debt in most high-income countries rose sharply from 2007. On the standard

measure of gross government debt relative to gross domestic product (GDP), the UK's ratio doubled from 44 per cent (2007) to 87 per cent (2018).² Debt relative to tax receipts also effectively doubled from 1.2 years' taxes (2007) to 2.4 (2018).

Unfortunately, these debts are the proverbial tip of the iceberg. To get a fuller picture of a government's liabilities one needs to make two adjustments:

- First, the government's 'off-balance sheet' debts need to be counted. These include payments it has guaranteed and unfunded pension commitments it has made to its own workers, net of assets. In the UK's case, these amounted to £2.6 tn in March 2018 (121% GDP) and easily exceed the £1.8 tn of debt that is on-balance sheet.³
- Second, the present value of legally binding policy commitments that the government has made to be funded from future taxes, rather than accumulated resources, can be calculated and added. In the UK's case, the state pension is unfunded and yet protected by the legal 'triple lock' ensuring that its inflation-adjusted level continues to rise. The total present value of the state pension commitment was last officially calculated at £4.1 tn in 2015 (then 212% GDP).⁴

Hence, a more realistic calculation of the UK government's debt comes to £8.5+ tn, or probably in excess of 420% GDP. It is unsurprising that these 'off-balance sheet' debts receive little publicity.

The risks caused by high government debts

It has become fashionable to dismiss the risks posed by such high debts. After all, they are being financed easily at very low interest rates with help from the Bank of England. If servicing the debt becomes too much of a problem, surely the Bank can expand its balance sheet further and 'print money' (although this is now a dangerous assumption to make following the invention of cryptocurrencies, because the populace can move their money into electronic alternatives if they lose confidence in the central bank). After all, Japan has survived economically for 27 years of vast government debts but low interest rates since its financial crisis in the early 1990s.

Such factors mean that it is difficult to say when the government's debts will precipitate a crisis. However, the higher they go, the greater the risks and dangers become. These are:

- A large and rising share of tax revenues becoming needed just to pay interest;
- The potential unwillingness of lenders to buy the government's bonds if its ability to repay comes into question, leading to a fall in the exchange rate and the loss of political independence (e.g. to the IMF in a bailout);
- The need to force peoples' savings into government debt if other lenders are unwilling;
- The temptation for a government to renege on its promises to repay either by allowing an inflation 'surprise', cutting its pension commitments, or defaulting on its debts;
- The disillusionment of younger workers who are saddled with the government's debts when older generations have enjoyed the benefits.⁵ This is in addition to younger generations having high student and mortgage debt while facing much less generous state and private pensions.

Heavy government debt therefore has numerous malignant consequences. It poses the risk of outright default, results in the loss of political independence, biases governments to accommodate inflation and facilitates intergenerational injustice.

A biblical response

There is no biblical material that directly refers to the issue of government debt. The very concept was largely unknown until the seventeenth century when first the Netherlands and then the British state borrowed for the first time as a corporate entity. In Britain's case this was in 1693, via the newly established Bank of England. At the time, it was even questioned whether it was morally right and even legally possible for the Treasury of a nation's citizens to borrow on their corporate behalf without their direct agreement or authority.

Indeed, this is the root of the problem of government debt from a biblical perspective. Lending and borrowing are relational activities entailing strong moral obligations of love, care and promise-keeping. Yet government borrowing is as non-relational a financial transaction as it is possible to get. There is no relationship

policies and rules to encourage a greater sense of government stewardship towards future generations will fail unless there is a change of societal 'heart'

between the lender and an identifiable borrower; usually little to no information as to what the funding is to be used for; no direct means for the lender to communicate and influence borrower behaviour; and no formal means for negotiation and compromise if the borrowing government finds itself unable to repay on time. A heavy debt burden tempts politicians to break their country's promises to repay through default or an inflation shock. Hence, we shall need carefully to apply biblical wisdom on lending and borrowing in an area that is singularly alien to its very concepts. These teachings are more fully set out and applied elsewhere.⁶ In summary:

1. *Debts are promises to be honoured* (Psalm 37.21; Romans 13.8). Borrowing entails a solemn promise to repay – hence, default is morally worse than theft because the lender is both deprived of their property and a promise is also broken (cf. Psalm 15.4).

2. *Borrowing entails financial bondage for the debtor* (Proverbs 22.7). Those in debt are under an obligation to keep their promise to repay or face the loss of their collateral (e.g. Deuteronomy 24.7, 13) or freedom (cf. 2 Kings 4.1). Hence, the wisdom in not giving a pledge for the debts of another, thereby losing one's liberty (Proverbs 6.1–5; etc.). Prudence and saving are 'wise' for the financial independence they bring.

3. *Debts are periodically to be cancelled and debt-slaves released* (Deuteronomy 15.1–6, 12–18) to ensure periodic intervals of debt freedom within the community and prevent the concentration of wealth and land into the hands of rich creditors.⁷ This would have meant that long-term debt would not have existed and that debt could not be inherited. Also, unlike today, government debts could not readily circulate as 'money' as they would periodically lose all their value.

4. *Interest could not be charged on debts within the Old Testament Israelite community* (e.g. Deuteronomy 23.19; Psalm 15.5) for this would

NOTES

1. Interest rates have been recorded for approximately 5,000 years back to ancient Sumeria. There are approximately \$14 tn of bonds outstanding trading with negative yields (as of end-July 2019).

2. IMF World Economic Outlook database and Office for National Statistics.

3. HM Treasury, 2019, *Whole of Government Accounts 2017-18*, May. https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/803751/WGA_2017-18_WEB_1.pdf

4. Office for National Statistics, *Wider Measures of Public Sector Debt*, December 2018. This was a gross underestimate as it utilized a discount rate of 3% (real) whereas a more realistic discount rate of ½% to 1% would increase the estimated value substantially. <https://www.ons.gov.uk/economy/government/publicsectorfinance/articles/widermeasuresofpublicsectornetdebt/december2018>.

NOTES

5. A US 65-year-old retiree in 2013 will receive a net \$327,000 from the Federal government over his or her lifetime through pensions, welfare, and healthcare. This is at the expense of future taxpayers who are expected to pay the US government a net \$422,000 over their lifetimes (*Swindled: How the Millennial Generation will Pay the Price of Washington's Paralysis*, 2014, p. 9; a report published by The Can Kicks Back and available online at [https://policylinkcontent.s3.amazonaws.com/Swindled_Report_\(Edits_Final\).pdf](https://policylinkcontent.s3.amazonaws.com/Swindled_Report_(Edits_Final).pdf)). The opposite trade-off is occurring with action to curb CO2 emissions with vast current costs being incurred for minimal predicted future benefit.

6. See my Cambridge Papers on the 'The ban on Interest: Dead letter or radical solution?' (March 1993); 'Christianity and financial security: Faith versus prudence' (March 1995); and 'The Great Financial Crisis: A biblical diagnosis' (March 2011) at www.jubilee-centre.org.

7. M Hudson, ... and forgive them their debts: *Lending, Foreclosure and Redemption From Bronze Age Finance to the Jubilee Year* (Dresden: ISLET-Verlag, 2018).

be to profit hard-heartedly from the bondage of a 'neighbour' (cf. Leviticus 19.18; Luke 19.22, 23). Jesus then extends the Old Testament injunction against lending at interest for his disciples to include seeking any reward (Luke 6.34, 35). Equity, leasing and rental contracts are the preferred alternatives to interest-bearing debt as ownership responsibility and financial return are not separated.

In addition, other relevant teaching and laws apply to the role of government and intergenerational covenants.

the public debt crisis now faced by most Western nations is a 'slow-burn' problem

5. *The powers and prerogatives of the Old Testament king are to be tightly controlled and placed under God's law* with firm restrictions on central spending (Deuteronomy 17.14–20) as a constraint on the abuse of power by sinful rulers. If these are not respected, a powerful central government is likely to abuse its tax-raising powers to enslave the populace (1 Samuel 8.11–18).

6. *God's covenants with his people span the generations*, with both blessings and curses having intergenerational consequences (Genesis 12.3; 15.18; Exodus 20.5, 6; Deuteronomy 28.58–63). Hence, the need for the wise to bless succeeding generations (Psalm 71.18; 145.4) and for parents to educate their children (Deuteronomy 6.4–7). A good government that emulates God's intergenerational perspective will therefore be one that does not abuse its current temporal position at the expense of the future, but seeks to balance the needs of the present and future generations. Through God's spanning of the generations, the obligation of neighbour love still applies, even if a direct relationship does not.

7. *Government ultimately is appointed by and responsible to God to punish wrongdoing and promote the common good* (Romans 13.1–6; 1 Peter 2.13–14). God's purpose for those made in his image is to work in, and tend, his creation for the fulfilment of God's purposes and the benefit of future generations (Genesis 2.15). Hence, good government manifests stewardship by passing onto future generations an improved means of existence, rather than obligating the unborn with far larger debts than their parents inherited.

8. *When planning for the future, we should take a humble approach, for only God knows the future* (Proverbs 27.1; James 4.13–16). It is folly to base current plans on the optimistic extrapolation of current trends (Isaiah 56.12; Luke 12.16–20; 2 Peter 3.3–10).

Application to government finances

The key to applying these principles is to focus on the relational dynamics at work between borrower and lender, and between current and future generations. Taking this approach, we can adopt the following aspirations:

1. Government embodies society's obligation of stewardship towards future generations. This can be achieved through government reducing its debt level, seeking to develop the nation's capital stock and preserving the environment such that succeeding generations can expect to have at least as good life chances as the present one. Practical ways to encourage the achievement of this goal could include:

(a) *An intergenerational covenant* to commit the current generation to care for those in the future. For example, since April 2016 the Wellbeing of Future Generations Act has required the major public bodies in Wales to consider the sustainability of their decisions and impact on future generations. Such undertakings could be reinforced at a national level by a constitutional commitment to a declining government debt:revenue ratio over the economic cycle until the government achieves a positive asset position. For example, in 2009 Germany passed a constitutional amendment that requires the Federal government to operate a budget deficit below 0.35% of GDP from 2016 onwards, barring exceptional circumstances.

(b) *Transparency over intergenerational government accounts*. To combat the persistent desire of politicians to hide government debts 'off the balance sheet', any such intergenerational covenant needs clarity over every debt that the government has guaranteed and is incurring. Future welfare, pensions, nuclear clean-up costs and healthcare promises which are not covered through taxation or funded through current saving would need to be valued and published, including an estimate of implied intergenerational transfers. An auditing body fully independent of the Treasury should be charged with these tasks and report directly to Parliament with a reformed House of Lords given the explicit role of defending the interests of future generations against the ever-present pressure of short-termism faced by elected politicians.

2. *Government can finance capital spending by non-debt means*. When general taxation is not deemed appropriate to finance specific infrastructure projects, financing can come from selling franchises to levy user fees if appropriate (such as toll roads), or leasing capital goods directly. If a government must raise additional finance, it could do so through issuing bonds linked to the nation's GDP. These instruments would pay out most when

governments are best able to pay and are the nearest financing tool a Treasury has to equity.

3. *If government debt is to be issued, it should be short-term and interest free.* Modern payment systems and current accounts are difficult to operate without some form of secure and liquid asset being available from a central bank or Treasury. Keeping any such borrowing short-term minimises both the temptation for government to accommodate inflation and any potential loss of political independence to placate long-term creditors.

How can we revive a sense of fiscal stewardship?

We can devise any number of clever policies and rules to encourage a greater sense of government stewardship towards future generations. However, they will fail unless there is a change of societal 'heart'. Responsibility may be imposed temporarily by 'rules' but unless a society's aspirations change

from self-absorption to self-giving, any new-found prudence will be short-lived. In addition to seeking the discipleship to Christ of all nations (Matthew 28.16–20), Christians can vote, campaign, or seek political office for parties that espouse a far greater concern for intergenerational justice and fiscal stewardship than currently on display.

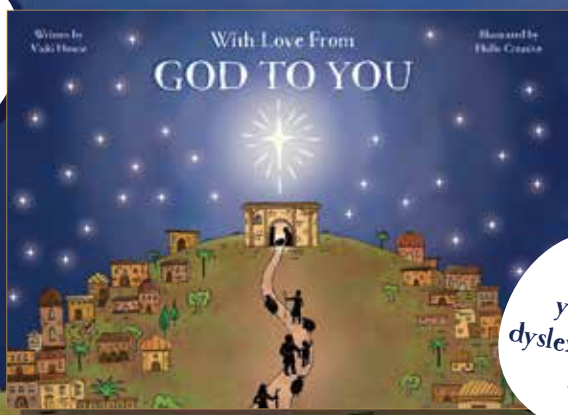
Conclusion

The 2007–09 financial crisis showed the power private debt has to threaten immediate financial collapse. The public debt crisis now faced by most Western nations is a 'slow-burn' problem that, unless tackled, will force governments to resort to draconian spending cuts, wealth confiscation, default or inflation. Christians have a unique message to address the underlying 'heart' issue of intergenerational selfishness through the gospel, while practical policy suggestions can be derived from the Bible's teaching on debt to promote justice for both current and future citizens.



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