What Does the Lord Require?  
A Christian Perspective on Justice in Public Finance*

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Abstract: In this essay, I provide a Christian perspective on justice in the system of public finance, including taxation, expenditure programs, and government debt. Beginning with a review of the concept of justice, its conflation with mercy, and its subjective nature in contemporary society, I warn against these approaches and I appeal to God’s justice, which assures that people receive their due. Biblical principles of taxation are provided along with data analysis and trends for the US tax system. Implications for tax policy are provided with cautions regarding the efficiency effects of redistribution via the tax system. Consideration of Bradford’s X tax (Bradford, 2003), a progressive consumption tax, is suggested. Government expenditure programs are reviewed along with data trends. Government deficits and debt are considered as well, with biblical principles of debt provided. This overview of US tax and expenditure systems is motivated by Christian perspectives, identifying biblical principles appropriate for both taxes and expenditures. Our tax system needs fundamental reform, keeping both equity and efficiency considerations in mind and paying special attention to justice in the administration of the system. Our national debt situation is unsustainable and requires long-term attention to its rationalization and reduction. These challenges are substantial, but manageable if addressed sooner rather than later. Concern for economic justice is appropriate and important as these challenges are faced, but from a Christian perspective it is not ultimate. We do not place our


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trust in government and public finance institutions to save us. Our hope is in Christ and Christ alone.

He has told you, O man, what is good; and what does the LORD require of you but to do justice, and to love kindness, and to walk humbly with your God?

(Micah 6:8, ESV)

1. Introduction: Economic Justice Considerations

At the outset let me be clear on my methodological approach. It is not my intention to present a distinctly new approach to public finance based on Christian principles. Rather, acknowledging the role of common grace in the scientific realm, I intend to rely on the best evidence-based research to date that can be brought to bear in thinking about public finance policy consistent with a Christian perspective. I am not attempting to reconstruct public finance theory and practice on Christian foundations (Oslington, 2020). All truth is God’s truth, even in the realm of public finance. So, let us apply the best research available to develop public finance policy consistent with a Christian vision of justice. When it comes to the interpretation of scripture for this purpose, I am acutely aware of the temptation to engage in eisegesis rather than exegesis. My approach is to humbly draw from scripture principles that have relevance to modern public finance policy, rather than read into scripture a contemporary perspective on public finance theory. Scripture does not specify the optimal income tax rate or the optimal size of the public sector as a share of GDP, but scripture does make clear fundamental principles that can inform our views on public finance.

What is justice, really?
In contemporary usage the term justice is quite amorphous. While there are lengthy treatises on the concept of justice, as in Sen (2011), for our purposes the rather simple concept that, “justice is giving people their due,” is the kernel of the idea although not a sufficiently comprehensive definition. Mill (1961) identifies two essential elements of justice: a rule of conduct and a sentiment that sanctions that rule.

The problem is that justice in our social context is fundamentally subjective. Contemporary calls for “social justice” are both amorphous and
too often conflated with mercy. This is problematic, even as expressed by Mill (1961) in the late 19th century. He said: “For the purpose of this inquiry, it is practically important to consider, whether the feeling itself, of justice and injustice, is sui generis like our sensations of color and taste, or a derivative feeling, formed by a combination of others” (p. 371).

Beyond subjectivity, Mill also identified the problem that the concept of justice can be quite ambiguous, saying: “Among so many diverse applications of the term justice, which yet is not regarded as ambiguous, it is a matter of some difficulty to seize the mental link which holds them together, and on which the moral sentiment adhering to the term essentially depends” (p.376). Tracing the history of the word justice, Mill explains the etymology of the word, which corresponds to Just, indicating that it points specifically to an origin in the ordinances of law (p.376). Furthermore, Mill indicates that “...the idea of law and of its injunctions was still prominent in the notion of justice, even when the laws actually in force ceased to be accepted as the standard of it” (p. 377). He summarizes:

To recapitulate: the idea of justice supposes two things—a rule of conduct, and a sentiment which sanctions the rule. The first must be supposed common to all mankind, and intended for their good; the other (the sentiment) is a desire that punishment may be suffered by those who infringe the rule. There is involved, in addition, the conception of some definite person who suffers by the infringement; whose rights (to use the expression appropriated to the case) are violated by it. (pp. 383–384)

Scripture consistently presents God’s justice as repayment to his creatures, rendering due rewards according to their actions both good and evil. See, for example, Psalm 62:12, Proverbs 24:12, Daniel 7:10, Matthew 16:27, Romans 2:6, 2 Corinthians 5:10, Revelation 20:12. Thus, the ideal form of justice, God’s justice, assures that people receive their due based on their actions as judged according to a fixed standard.

**Biblical Principles of Taxation**

In this section I draw on material from Anderson (1999) to identify biblical principles related to taxation. Four key principles applicable to taxation and motivated by scripture are summarized here.
Principle 1: Render to Caesar—pay your taxes

Christians are obligated to pay taxes to secular governments. The Apostle Paul makes it clear in Romans 13:1-7 that Christians must submit to authorities, and that includes payment of taxes. In that passage Paul says: “Pay to all what is owed to them: taxes to whom taxes are owed, revenue to whom revenue is owed, respect to whom respect is owed, honor to whom honor is owed” (ESV). Paul’s command includes an explanation of why taxes should be paid. The command is given in the context of submission to authorities—grounded in the sovereignty of God in establishing civil government. When Jesus was asked the same question by the Pharisees (Mark 12:13–17) he responded with a simple, yet profound, answer. While the context of the ‘gotcha’ question was fraught with complexity and its intention was to trap Jesus, his response was unassuming yet piercing. Asking for a Roman denarius coin, he then questioned whose image was stamped on the coin. The coin had Caesar’s name and face stamped on it, so Jesus observed that the coin was Caesar’s. Hence, the coin should be given to Caesar: “Render to Caesar the things that are Caesar’s, and to God the things that are God’s.” In this response Jesus revealed the importance of discovering God’s claims on us, as is evident from the image of God stamped on us (i.e. the imago dei), and our responsibility to respond to those claims rendering what is due. His focus was on the Kingdom of God, not the kingdom of Caesar.

Jesus also indicated that it was appropriate to pay an ecclesiastical tax (Matthew 17:24–27), even though he might have claimed exemption. When the Apostle Peter was asked by the temple tax collectors whether Jesus paid the 2-drachma temple tax, questioning whether he claimed the rabbi’s and priest’s exemption from paying the tax, Peter indicated that Jesus did pay. Jesus then clarified the situation with Peter. By way of analogy, Jesus did not draw an equivalence between the toll or tribute exacted by the emperor. Rather, he explored the basis for any form of taxation. Starting from the observation that earthly rulers do not tax members of their own family, Jesus appears to be making a claim of exemption. Since this is God’s tax, God’s son should be exempt. Yet, for the sake of not giving offense, Jesus paid the tax. Peter was told to go fishing, find the tax payment in a fish’s mouth, and pay the temple tax. Jesus was willing to comply with the norms of the community rather than claim his rights and cause offense. Incidentally, there were observers who drew the incorrect conclusion that Jesus was advocating tax evasion (Luke 23:2).
Based on the actions and teachings of Jesus and the Apostle Paul, we have clear instructions that Christians are to pay what taxes they may owe to both secular governments and ecclesiastical authorities. Recognizing that God’s laws are supreme, however, we know that if the Christian is asked to violate God’s law there is no choice but to obey God rather than man (Acts 4:19). Hence, there may be circumstances where the Christian may support tax resistance. Yet, as a rule, taxes are to be paid. Jesus even went above and beyond, paying a tax that he considered inappropriate.

**Principle 2: Justice is required**

Scripture makes it clear that justice is a preeminent principle that should characterize society, even its tax system. We know this from Micah 6:8, reflected in the title of this essay, but also from many other passages of scripture. God looks for justice in human social systems, and when he finds that justice is lacking, his judgment follows (Isaiah 5:7). God’s ultimate instruction to the Israelites was: “Justice, and only justice, you shall follow, that you may live and inherit the land that the LORD your God is giving you” (Deuteronomy 16:20). Of course, God’s concern for justice in human systems is rooted in his own perfect justice (Isaiah 5:16). When earthly rulers seek to honor God in their roles, they do well to imitate King Solomon, who prayed asking God to endow him with God’s own justice (Psalms 72:1).

As we consider justice in tax systems, we will focus on several ways in which they can support justice: (a) enabling people to earn a living after-tax wage, (b) just tax-rate structures, and (c) justice in tax system administration.

Early accounts of taxation in scripture reveal three types of taxes that were used in various contexts: (1) head taxes, (2) *ad valorem* taxes, and (3) ability-to-pay taxes. The head tax is the first tax recorded in scripture. A half-shekel tax was required of all men 20 years of age or older as part of the census conducted by Moses (Exodus 30:12–16). The second tax recorded in scripture is an *ad valorem* tax imposed by King Joash to repair the temple. The priests were instructed to collect the temple tax in three parts: (1) the census tax, (2) money from personal vows to the Lord, and (3) voluntary contributions (2 Kings 12:4–5). The census tax was a head tax, as noted above. Money from personal vows to the Lord was governed by the laws about vows in Leviticus 27:1–88. Assets involved (e.g. land, house, animals) were valued by priests to
establish assessments. Accommodations were included for persons too poor to pay taxes. In those cases, the priest would use his judgment to assess an amount based on the person’s ability to pay.

This brief review of early accounts of taxation in scripture indicates that taxes were levied in several ways, including head taxes, *ad valorem* taxes, and ability-to-pay taxes. While the proportional 10 percent tithe (Deuteronomy 14:28) is sometimes held up as the biblical norm for taxation in the contemporary economy, that appears to be only one of several methods employed in ancient Israel recorded in scripture. The tithe is not normative as a form of taxation in a complex modern economic system.

**Principle 3: Compassion is required**
An extraordinary compassionate regard for the poor is required of followers of Christ. Scripture teaches that an economic system that disregards the powerless, the widow, the sojourner/alien will be subject to God’s harsh judgment (Leviticus 25:35, Deuteronomy 26:12). God is concerned for the marginalized people in a society, so followers of Christ must also have special regard for them. When it comes to tax policy does that mean the poor should be relieved of all taxes? The answer to that question requires consideration of what it means to be poor and what personal responsibility requires. Scripture also emphasizes personal responsibility and individual accountability. John Mason (1978) has analyzed biblical systems of assistance for the poor, finding that those programs involved reciprocity. Wealthy community members were required to provide assistance to the poor, and the poor were required to work.

In modern parlance we speak of equity in taxation. That can mean either horizontal equity, i.e. treating equals equally, or vertical equity, i.e. treating unequals unequally. The horizontal aspect of equity is more a matter of justice. Persons of equal standing should be treated equally by a tax and transfer system. The practical problem, however, comes in defining equals. Are persons to be considered equal with respect to income, consumption, wealth, or other measures? Each measure leads to a different perspective. The vertical aspect of equity is fraught with a similar problem.

As we contemplate the clear biblical mandate for compassion, we must consider the relationship between compassion for the poor and justice. In the context of a tax system, does compassion require a steeply progressive rate structure? Or, does that violate justice by which each person gets his due? This is a tension that must be navigated in the design
of a tax system. Theologian Carl Henry (1991) has warned Christians not
to conflate compassion and justice. He cautioned that when considering
public policy issues from a Christian perspective we should not, "... elevate compassion as the essence of divinity and subordinate to it all
other divine perfections, including righteousness or justice." (pp. 26-27).
Furthermore, he warned of two consequences in doing so: first, that God
would be depicted as unoffended by sin, and second, that the concept of
justice is weakened while that of compassion is distorted.

**Principle 4: Stewardship of resources is required**
The cultural mandate in Genesis requires that humans be stewards of God’s earth and its resources (Genesis 1:26–30, Psalms 24:1).
Recognizing that the earth and all that fills it is the Lord’s, economics from a Christian perspective is all about stewarding God’s resources for
the benefit of his creatures and for his glory. Applying stewardship principles to tax systems requires care in not wasting resources in the form
of deadweight losses or excess burdens.

Economic theory indicates that excess burden rises with the square
of the tax rate and is therefore highly sensitive to changes in the tax rate.
A doubling of the tax rate quadruples excess burden. Cutting a tax rate
in half reduces excess burden to one-quarter of its former level. For this
reason, it is essential that tax policy be designed to maintain broad tax
bases permitting rates as low as possible for efficiency reasons.

When tax rates rise, taxpayers can adjust their behavior in a wide
variety of ways. One way in which to capture all the marginal changes
that may occur is to analyze responses to taxable income. Taxable
income may change due to labor supply changes that affect wage and
salary income (on both extensive and intensive margins), itemized
deductions claimed, portfolio composition changes, capital gains reali-

**Tax Data and Trends**

As we consider the distribution of federal tax burdens, we can begin with
a view of average tax rates (ATRs) by income level, as reported by the
Congressional Budget Office (CBO, 2020). For individual income taxes the ATRs range from more than minus 10 percent in the first quintile to more than plus 15 percent in the highest quintile, indicating a high degree of progressivity. The negative ATR in the first quintile is due to refundable credits such as the Earned Income Tax Credit (EITC). Payroll taxes used to fund Social Security and Medicare have generally flat ATRs across the income distribution except for the highest quintile, where the Social Security tax limit occurs. Corporate income taxes, as they are allocated according to CBO practice, are mildly progressive. Finally, federal excise taxes are regressive, as is typical for such taxes. This evidence reveals that it is the personal income tax that provides progressivity in the US federal tax system, and a high degree of progressivity at that.

The overall trend in federal taxes paid by income groups over the period from 1979 through 2017 is also reported by the Congressional Budget Office (CBO, 2020). The trend indicates clearly that the share of taxes paid by the lower three quintiles has shrunken over time. Even the fourth quintile share has been falling. In contrast, the share of taxes paid by the top quintile has increased, especially among the top 1 percent of the income distribution. The top quintile’s share of federal taxes paid increased from 55 percent in 1979 to 69 percent in 2017. The share of before-tax-and-transfer income of that group also increased over the period, although to a lesser extent. The CBO reports that most of the increase in tax paid by the top quintile occurred among the top 1 percent of the distribution. Among the top 1 percent of the income distribution, the share of federal taxes paid rose from 14 percent in 1979 to 25 percent in 2017. Their share of income before taxes and transfers rose from 9 percent to 17 percent over the same period.

A long-term picture of the distribution of income and federal taxes based on tax data is provided in Piketty and Saez (2003) and Piketty et al. (2018). Their estimates indicate that the degree of inequality in the pre- and post-tax income distribution has increased dramatically since the 1980s. They find that in rising through the income distribution, the share of wage income declines while the shares of capital income and entrepreneurial income increase. Piketty and Saez (2003) indicate that, for the top decile of the income distribution, their share of income was approximately 45 percent from the 1920s through to the start of World War II. Their share was then approximately 32 percent until the early 1970s, when it began to rise, reaching 42 percent by the late 1990s. The
income share for the top 0.05 percent of the distribution is also reported, indicating that it fluctuated wildly over the period from 1913 through the 1930s. After World War II their share was close to 0.5 percent, but since the early 1980s their share has risen to approximately 2.5 percent.

Later research reported in Piketty et al. (2018) places focus on the period from 1962 through 2014. Their analysis estimated the bottom 50 percent share of national income, both pre-tax and after-tax, as well as the real income of the bottom 50 percent. They found that the pre-tax income share of the bottom lower 50 percent fell from 22 percent in 1969 to approximately 13 percent in 2014. After-tax income follows a similar trend, although the wedge between it and pre-tax income increased over time due to tax and transfer policies. Real incomes rose over this period, both pre-tax and after-tax, with after-tax income rising from approximately $14,000 to $25,000. They also compute income shares for the top 10 percent and the top 1 percent of the income distribution, both pre-tax and after-tax. Notable in the trends since the mid-1980s is the growing difference between pre-tax and post-tax shares, reflecting the effect of the income tax system on partially reducing top income shares.

While the patterns of inequality in Piketty and Saez (2003) and Piketty et al. (2018) are striking, they are not without challenge based on data considerations. Auten and Splinter (2019a) have access to restricted versions of the micro data, and they have made several adjustments to the data to present a more accurate picture. Based on their estimates, they conclude:

Top income share estimates based only on individual tax returns, such as Piketty and Saez (2003), are biased by tax-base changes, major social changes, and missing income sources. Addressing these issues requires numerous assumptions, especially for broadening income beyond that reported on tax returns. This paper shows the effects of adjusting for technical tax issues and the sensitivity to alternative assumptions for distributing missing income sources. Our results suggest that top income shares are lower than other tax-based estimates, and since the early 1960s, increasing government transfers and tax progressivity resulted in little change in after-tax top income shares. (p. 1).

Recent evidence on average federal tax rates by income groups in Splinter (2020) indicates that over the period 1979–2016, rates fell 76
percent for those in the bottom quintile, 5.2 percent for those in the middle quintile, and 0.6 percent for those in the top quintile. Hence, the effect of tax policy changes over this period covering several eras of tax cuts has been to make the federal tax system more progressive, not less progressive as popular perceptions may indicate.

Just Make the Rich Pay Their “Fair Share”

When it comes to taxes, what is fair? How fair is fair? If we are thinking of income taxes, is it “fair” that tax paid be proportional to income? With a progressive income tax system, however, the share of taxes paid rises with income—so how fair is fair? These are difficult questions to answer because, as Mill has indicated, they involve subjective views of justice.

Analysis of federal income taxes by income group by analysts at the Tax Policy Center in Washington DC, indicates that in 2014 (their most recent published analysis) the top quintile of the income distribution earns 51.3 percent of the income while paying 83.9 percent of all the income taxes. The bottom quintile, on the other hand, earns 4.5 percent of the income and pays minus 2.2 percent of the income taxes (i.e. receives payments in excess of taxes paid). While the income distribution is certainly unequal, the income tax burden is ever so much more so. How much more should the top quintile be taxed to make the system fair? At a popular level, the answer is, “just a little more,” or, as in the Biden plan, “only those with incomes above $400,000.”

The CBO (2020) reports similar data for all federal taxes for 2017. Their report indicates that the top quintile of the income distribution earned 55 percent of income before transfers and taxes while paying 69 percent of federal taxes. Households in the bottom quintile paid 0.2 percent of federal taxes while earning 3.7 percent of income before taxes and transfers.

The Tax Policy Center analysis of President Biden’s tax plan from the campaign, indicates that, if enacted, taxpayers with incomes of $500,000 or more will bear some 88 percent of the increased tax burden (Mermin et al., 2020). After-tax incomes rise for households with incomes of $100,000 or less, while they fall above that income level. The most dramatic reduction in after-tax income—minus 12.1 percent—occurs for those with incomes of more than $1 million. The average tax rate paid by those with incomes of more than $1 million rises by 8.3 percent to 39.9 percent.
Efficiency cost of additional progressivity

There is an efficiency cost to additional progressivity, however. One way to measure that efficiency cost is to use an estimate of the elasticity of taxable income (ETI). According to Saez et al. (2012):

While there are no truly convincing estimates of the long-run elasticity, the best available estimates range from 0.12 to 0.40. Proceeding mechanically, at the approximate midpoint of this rate—an ETI of 0.25—the marginal excess burden per dollar of federal income tax revenue raised is $0.195 for an across-the-board proportional tax increase, and $0.339 for a tax increase focused on the top 1 percent of income earners. (p. 42)

These results indicate that there is a very substantial efficiency cost to raising federal revenue, especially if that is done via increased taxation at the top of the income distribution. A welfare loss of $0.34 for each dollar of revenue raised is a high efficiency price to pay for increased progressivity.

So, while the Biden plan for greater progressivity in the federal income tax may tilt the system to tax high-income households more heavily, and reduce tax burdens for low-income households, it will come at a high efficiency cost as it targets the top of the income distribution. Using the Saez et al. (2012) estimated ETI for top income earners, for the 1,010 tax units with income of more than $1 million, each experiencing an average tax increase of $297,330, the estimated marginal excess burden is $101.8 million.

Implications for Tax Policy

Direct and indirect taxes

The conventional wisdom has held that indirect taxes (e.g. excises) are needed for efficiency and that direct taxes (e.g. income taxes) are needed for equity. The Atkinson–Stiglitz Irrelevance Theorem (Atkinson & Stiglitz, 1976), however, reveals that an appropriately designed direct tax can accomplish both purposes. Consequently, we may no longer need to perpetuate the conventional wisdom. Several factors mitigate against having a single direct tax, however: tax evasion (Myles, 1995) and administrative costs (Chetty et al., 2009).

How do we combine concerns for equity and efficiency? This is precisely what the optimal tax literature attempts to do. Starting in the
1970s, efforts to design optimal income tax systems have been developed. Early models, beginning with Mirrlees (1971), pointed to rate structures with low, or even zero, rates at the top of the income distribution. In particular, the Mirrlees model implies that, (1) the marginal tax rate is zero for the least productive agent if that agent works, and (2) the marginal tax rate is zero for the most productive agent. So, the optimal tax rate schedule cannot be uniformly progressive. The ATR must decrease above some level. Mankiw et al. (2009) summarize the literature with several lessons, five of which are presented here:

- Lesson 1: optimal marginal tax rate schedules depend on the distribution of ability
- Lesson 2: the optimal marginal tax rate could decline at high incomes
- Lesson 3: a flat tax, with a universal lump-sum transfer, could be close to optimal
- Lesson 4: the optimal extent of redistribution rises with wage inequality
- Lesson 5: taxes should depend on personal characteristics as well as income

Importantly, the Mankiw et al. (2009) review indicates that a flat tax with a universal lump-sum transfer, as in Atkinson (1995), could be close to optimal. Proposals for a universal basic income program have been proffered, starting with the Johnson administration test program of a negative income tax in New Jersey in 1968. More recent pilot projects have been proposed or implemented in Hawaii, Oakland, CA, Stockton, CA, and Chicago, IL. Concerns over a broad federal universal basic income program focus on its cost, work disincentives, and potential inflationary impact.

Another alternative that has gained popularity recently is that of a basic income or flat tax system (BI/FT). Everyone in the population would receive a lump-sum transfer from the federal government, calibrated to provide a basic income level. That would be combined with a flat income tax rate structure. In its purest form, the BI/FT approach would replace Social Security and perhaps some or all other welfare programs. Atkinson (1995) provides a comprehensive review of the BI/FT approach. Salanić (2011) summarizes by saying:
To conclude this discussion of the Atkinson–Stiglitz result, it should be noted that it only holds in a model that abstracts from concerns about practical implementation. In the real world the administrative costs of taxes and the risk of evasion are important determinants of the choice of taxes. In this respect VAT has some real advantages. (pp. 131–132)

Piketty et al. (2014) extend the usual optimal tax model to include three forms of behavioral response: (1) labor supply, (2) tax avoidance, and (3) compensation bargaining. With this broader approach, they find that optimal tax rates at the top of the income distribution increase. That result occurs in the presence of zero-sum compensation bargaining effects among high-income CEOs.

*Can the United States continue to rely primarily on the personal income tax for federal revenue?*

The evidence presented so far indicates that the United States is reaching the limit of how much we can rely on personal income tax, tilted heavily to the upper portion of the income distribution, to fund our federal government. Half of all taxpayers pay 97 percent of all income taxes in the United States (Tax Foundation, 2020). This situation is not conducive to broad support of public institutions and programs, as required in a democracy. There are both efficiency and equity concerns with this tax policy approach, which have prompted suggestions for reform.

As indicated in a report by the Council of Economic Advisers (2006), the United States relies primarily on personal income tax whereas most other advanced economies rely primarily on VAT for revenue. Personal income tax contributes a far smaller share of revenue for the EU countries, for example. In those countries personal income tax contributes a relatively smaller amount of revenue while doing so by taxing those at the top of the income distribution. Hence, they are relying primarily on a consumption tax for revenue and using an income tax for distributional purposes. Graetz (2011) and others have proposed that the United States reforms its tax system in a similar manner, relying primarily on VAT revenue. Concerns regarding this approach center primarily on whether adoption of a VAT would replace other tax sources or be in addition to existing tax sources. See, for example, the President’s Advisory Panel on Federal Tax Reform (2005), which rejected this approach in their recommendations for reform.
A second major tax reform idea is to adopt a carbon tax. That proposal has the potential benefit of not only internalizing the carbon externality but also providing a second benefit via revenue recycling. If the carbon tax revenue is used to reduce reliance on other sources of revenue that are more distorting, a so-called double dividend may be realized. While theoretically possible, the current fiscal environment does not lead to optimism regarding the second dividend being realized.

The 2005 President’s Advisory Panel on Federal Tax Reform recommendation for the Growth and Investment Tax Plan (GIT) provides a blueprint for a reasonable approach to tax reform. That reform plan moves the personal income tax further in the direction of a consumption tax—a progressive consumption tax—and converts business taxation into a cash-flow tax with expensing for new investment. The overall effect of the GIT plan would be to enhance the efficiency of the tax system, while maintaining a degree of progressivity.

In summary, the current US income tax system is too complex, unstable, distortionary, and unpredictable. Ultimately, the system has evolved to a point where the essential purpose of raising revenue to fund government activity has been lost. It is essential that we reform the tax system and do so in ways that are mindful of both equity and efficiency implications. Moreover, justice in tax system administration is essential as we contemplate reforms.

2. Government Expenditure Programs

A social insurance perspective
Many social programs provided by governments are motivated by the desire to hold citizens harmless from economic disasters that may occur. Given the failure of private insurance markets in some contexts, there is a role for governments to provide expenditure programs filling those gaps. Private information, adverse selection, and moral hazard are the usual causes of insurance market failures. In response, Social Security, Medicaid, Medicare, and a host of other programs provide assistance that is essentially insurance against bad economic outcomes.

From a Christian perspective, the rationale for providing insurance coverage in the face of market failure is consonant with recent developments in economic theory on the so-called Samaritan’s Dilemma. Originally suggested by Buchanan (1975) and developed more formally
in Coate (1995), this perspective is rooted in the biblical parable of the Good Samaritan in Luke 10:25–37. While conventional economic theory indicates that cash transfers welfare dominate in-kind transfers, there are circumstances where that may not hold. The perspective of the Samaritan's Dilemma is that the rich care about the welfare of the poor. The poor face potential loss due to unanticipated medical expense, crop loss, flooding, or other disaster. The government is assumed to represent the rich, making transfers on their behalf.

As the government makes unconditional transfers to the poor, the poor have an incentive to under-insure, relying on private charity in the case of disaster. The rich are not able to commit to not help the poor even if the government makes the ex ante desirable transfer. Failure to insure adequately on behalf of the poor, anticipating private charity, results in adverse efficiency effects due to the fact that the rich—not the poor themselves—choose how much protection against loss to provide to the poor. The conclusion is that efficiency can be restored by the government ensuring that the poor receive the appropriate amount of insurance. The optimal transfer policy is provision of in-kind transfers of insurance.

While not all government programs have an insurance motivation, and the scope and size of programs may not be optimal, from a Christian point of view the Samaritan's Dilemma provides a rational basis for many insurance-oriented programs. This is one of the ways in which the Christian perspective can be leveraged in the design and implementation of government expenditure programs.

Expenditure data and trends
A brief overview of federal government expenditure trends reveals dramatic changes in recent years due to economic circumstances and changes in policy. The CBO long-term budget projections indicate that outlays will rise as a share of GDP over the 10-year period to 2030 while revenues will remain at approximately the same percentage of GDP. Consequently, the budget deficits will grow. The alarming aspect of the CBO projection is that net interest on the debt is projected to rise over the next ten years, eventually exceeding outlays for all discretionary spending and Social Security. This is an unprecedented situation and a reason for grave concern.

Outlays for major healthcare programs such as Medicaid and Medicare, along with Social Security, will rise over time, choking
Deficits and Debt

In this section, I draw on material from Anderson (2013) to identify biblical principles related to debt. Three key principles applicable to debt motivated by scripture, each with its own context, are summarized here.

Principle 1: Debt is to be avoided
Debt is used as a metaphor for sin in scripture, suggesting that it is to be avoided. The familiar Lord’s Prayer teaches us to ask God to forgive our debts. At the national level, indebtedness may be a result of God’s judgment. King David calls on God to act against his enemies in Psalm 109, seeking for creditors to seize his enemy’s assets. Further, in Deuteronomy 28 we see that God’s judgment is related to borrowing and indebtedness to other nations. While these examples are specific to the context of the Sinai covenant with Israel, debt is figured as a means of God’s judgment against rebellious nations—debt can be viewed as a judgment of God.

Principle 2: Debt is to be repaid
Debt repayment reminds us of the reality that sin requires just judgment and that payment is required. We understand the terms of the Great Exchange: the righteousness of Christ is exchanged for human sin. The wages of sin is death—paid for by Christ. In exchange, his perfect righteousness is given as a free gift to the believer. God is both just and the justifier of those who place their faith in Christ (Romans 3:26). In the context of government debt, the analogy is that there are economic costs associated with debt, which must be paid. An illustrative parable telling the story of the talents (Matthew 25:14–30 and Luke 19:12–28) indicates that those with productive assets who use them wisely are given more, while those who do not act wisely will have their assets confiscated.
The parable is not really about asset returns and the distribution of wealth (much less in the context of a modern democratic capitalist economy). Rather, it is communicating the spiritual truth that the kingdom of God is given to those with spiritual understanding of the master. Understanding the master, and obedience to his wishes, is the point. Even so, the parable is cast in the context of debt to make this spiritual point. The wise use of debt for productive purposes, and its repayment, are presented as like God’s intentions regarding his kingdom.

Principle 3: Debt is to be forgiven
The familiar Lord’s Prayer teaches us to ask God to forgive our debts as we forgive our debtors. In the same way that we want to be forgiven our debts, we are to forgive others their debts to us. The debt forgiveness figured in scripture is related to the substitutionary sacrifice of Christ for the payment of our sin. Further, in the Old Testament the principle of debt forgiveness is clearly pictured in the Year of Jubilee in Leviticus 25. The idea is that debt forgiveness for the poor is appropriate to assure that they have access to productive assets in the economy. In this way, the Jubilee provisions figure the restoration of life. In the New Testament we have reinforcing examples. The parable of the unforgiving servant in Matthew 18, for example, indicates that those who deeply understand the debt they have been forgiven in the finished work of Christ should be ready to forgive others their debts toward them.

In our contemporary context most debt is commercial, taken on by economic agents who use their human capital to produce future income used to repay the debt. Presumably, this contractual arrangement is made with perfect information and competition among lenders. If not, there are good reasons to consider debt forgiveness policies. If banks or other financial institutions were required to forgive appropriately founded contractual debts it would ultimately hurt both the poor and the non-poor. There is no moral compulsion for debt forgiveness in this context. Anderson (2005) and Schaefer and Noell (2005) provide further insights on the Old Testament welfare provisions with discussion of Jubilee, moral hazard, contract theory, and distributive justice considerations. Schaefer and Noell conclude that the laws were workable in their context, would not have required coercion for participation, and would have been commercially viable. Their contemporary analogy is modern bankruptcy law.
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What is the US trend in federal debt and deficits?
The Congressional Budget Office (CBO, 2020) provides analysis of federal debt held by the public, both historically and projected, from 1900 through 2050. The previous peak debt/GDP ratio—more than 100 percent—was experienced during the World War II period. It took until the 1970s to drive that ratio down to approximately 25 percent. Since then, economic, political, and pandemic forces have caused the ratio to rise to unprecedented levels, forecast to reach nearly 200 percent by 2050.

What will it take to reduce our debt?
The Congressional Budget Office (CBO, 2020) also provides alternative debt reduction scenarios. If we were to start deficit reduction in 2025, to reach the target of a debt/GDP ratio of 100 percent by 2050 it would require 2.9 percent reductions in annual primary deficits (excluding net interest expenses). For context, the FY2020 budget deficit was $3.1 trillion, so a 2.9 percent reduction, ignoring the current small amount of net interest in the budget, would be approximately $90 billion—not an insubstantial budget reduction. A more ambitious target of a 79 percent debt/GDP ratio would require larger deficit reductions—3.6 percent each year. Later starting dates for debt reduction efforts require even larger annual deficit reductions. Needless to say, debt reduction will be difficult and will take a long time.

3. Summary and Conclusions

This overview of US tax and expenditure systems is motivated by Christian perspectives, identifying biblical principles appropriate for both taxes and expenditures. Our tax system is in need of fundamental reform, keeping both equity and efficiency considerations in mind and paying special attention to justice in the administration of the system. Our national debt situation is unsustainable and requires long-term attention to its rationalization and reduction. These challenges are substantial, but manageable if addressed sooner rather than later.

Concern for economic justice is appropriate and important as these challenges are faced, but it is not ultimate. We cannot place our ultimate trust in institutions, including our fiscal institutions and their policies, to save us. As Christians we understand that to place trust in human institutions is misguided. Our hope is in Christ and Christ alone. Johnson
(2001) contends that in our contemporary society we have misplaced our trust:

We are cynical, suspicious of established government, education, technology, and medicine. Yet our cynicism is the recycled remnant of dashed hopes and broken faith, precisely because, having lost sight of the God who is worthy, we have invested such trust in these institutions to save our civilization and us. (p. 112)

Our work in the economics laboratory should reflect the Rule of St Benedict: *Ora et labora.* We must combine prayer with our work in the social science laboratory. In so doing we will avoid the extremes of hyper-individualism and formulaic institutionalism. At a personal level, Christians will do well to avoid placing trust in our institutions and heed the biblical admonition in 1 Timothy 6:6 (*ESV*): “But godliness with contentment is great gain.” Our lives as followers of Christ should be characterized by the pursuit of godliness and the form of contentment found only by resting in the finished work of Christ and the mercy offered in the gospel.

References


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