

‘Global public debt is probably worse than it looks.’ ‘Rich’ Countries Sinking into Debt



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ometimes countries need to borrow money by the boatload. It happened during WWII, when democracies faced a near-existential crisis. In the following decades, debt sank, as it often does in the wake of such a crisis: In the United States, Canada, and Japan, plus Europe’s large economies, such as Germany, France, and Italy, the debt-to-GDP ratio fell to a modest 40 percent by 1968.

Fast-forward 50-plus years, and things sure have changed. “Global public debt is probably worse than it looks,” the International Monetary Fund’s blog recently declared. “It is expected to exceed \$100 trillion” for 2024. That’s approximately 93 percent of global GDP, up from around 83 percent in 2019. Already Japan’s debt is an eye-watering 250 percent of its GDP. And the IMF believes government worldwide borrowing is likely to worsen.

Debt surges like these don’t happen by accident, but explaining them isn’t always easy. Peter Tchir,

head director of macro strategy at Academy Securities, says part of the issue has been slow growth following the financial crisis, along with increasing healthcare costs for the aging population of the developed world. But that’s not the only thing. Much of it was a response to the pandemic, Tchir says. “Governments probably overresponded to the COVID crisis,” he notes. “And we’ve had lots of government spending in economically good times, when it wasn’t needed.” Separately, the IMF says politicians are now treating increased spending as a norm rather than an exception.

As anyone with a large student loan knows, being heavily in debt can be a challenge, and the same is true for governments. When a country borrows too much money, investors become less willing to lend, says Léo Barincou, a senior economist at Oxford Economics in



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Paris. This requires governments to offer higher bond yields to attract investors, which in turn means a greater drain on public finances, of course.

Barincou says higher debt levels and rising interest costs often mean less flexibility for governments during a crisis such as the Great Recession of 2007 to 2009. Most developed countries were able to step in to deal with that challenge. However, it might not be as easy in the future. “There are always economic shocks, and typically governments step in to help,” he says. “But it’s hard for them to step in and help when the debt levels are so high.”

There’s also a risk that too much debt will lead to higher inflation. If there are no buyers for government debt, then a country’s central bank, such as the Federal Reserve or European Central Bank, may decide to buy the bonds itself, says Pete Earle, director of economics and economic freedom at the American Institute for Economic Research.

“Effectively that is printing money, and contributes to higher inflation,” he says. And high inflation tends to quickly destroy economies, as demonstrated in post-WWI Germany.

For his part, Earle worries that Japan’s 250 percent debt level might encourage other countries to borrow more. “They might be saying, ‘If they can do that, so can we,’” he says. “But in reality it should provide a cautionary tale, not a goal.”

Fortunately, there is a way out of deep debt for governments, Barincou says. If the economy is growing fast and interest rates are low, then the debt level can be reduced. “It creates a natural downward path,” he says. And the sooner, the better: High debt levels, which often go hand in hand with higher borrowing costs, also tend to slow the economy. “That means more government resources are being used, and crowds out economic growth in the private sector,” Earle says. ▀

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