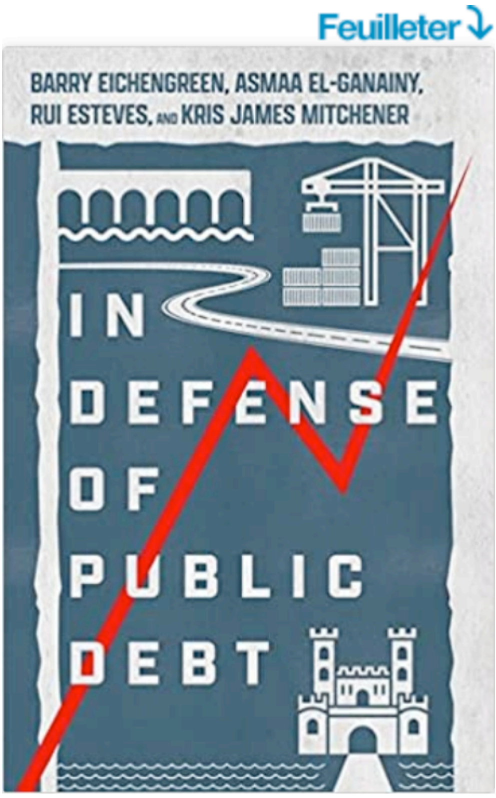

- Recounts two millennia of public debt history, putting contemporary political concerns in context
- Provides a balanced interpretation of public debt, emphasizing constructive aspects that are often neglected
- Connects the present challenges of debt-management in advanced economies to those of the past, showing how economies climbed out from under mountains of debt
- Pushes back on mainstream accounts warning of the negative consequences of public debt issuance

Executive Summary, by Barry Eichengreen

VIDEO: https://bcf.princeton.edu/events/barry-eichengreen/

- Start video at 10:0.
- Settings:
    1. Reduce speed
    2. Insert Sub-titles

[0:00] Introductory Remarks.

There is great debate over how much government debt the market can ultimately absorb, and whether it is possible to run a deficit without paying back the debt. Real interest rates on safe assets are low, since they provide service flows. Issuing new debt at a faster pace can lead to inflation, which taxes bond holdings and precautionary savings. While new bond issuances create revenue there is a Debt Laffer curve as this issuance is taxing precautionary savings and lower value of debt. Debt is quite robust, which means that it is very strong and consistent until it defaults. This information insensitivity makes it a good precautionary savings tool. In contrast equity is more volatile but does not face a robustness barrier and makes it more resilient.

[10:00] Recent years have seen shifts in views of public debt.

In the 1980s and 1990s, growing debt was a massive fear, leading people to believe that government spending and debt were out of control. The Global Financial Crisis led to a "wobble" in beliefs, but they were dismissed as no more than a temporary deviation. Covid-19 led governments around the world to run unprecedented deficits, which begs the questions: are these changes in attitudes justified, and will they last? It is clearly justified given the extraordinary circumstances– if a government did not act in this manner, the government would be seen as illegitimate.

[16:59] The history of deficit spending for crisis management is extensive.

Governments or kingdoms have been doing this throughout the last several centuries, Europe pioneered using debt to finance wars. However, borrowing is limited by commitment problems, until regulation from representative assemblies meant that sovereign debt became an obligation of the state rather than any individual (king). To ensure stability, the establishment of central banks and secondary markets was necessary. Over time, uses of public debt have evolved: wars, development, and social programs all required borrowing.

[30:29] With the Covid-19 crisis, a war-like response was necessary.

If the change in beliefs are solely the product of Covid, perhaps there will no longer be this support. However, the change in attitudes may pre-date the pandemic. There has been growing recognition of the need for the government to provide public goods in education, health care, research, infrastructure, and climate change that markets do not adequately supply. Heavier debts are more sustainable because of the lower interest rates around the world. If interest rates rise, so will interest burdens.

[34:45] Throughout the 19th century in countries such as the U.S., the U.K., and France, fears of future wars brought the debt to GDP ratios down, preparing for going into further debt later.

The question arises: Is it possible today to exert fiscal effort now through persistent primary surpluses? Generally speaking, only under special circumstances: a few countries in the 1990s, but not under normal conditions. Some economists argue that debts could be inflated away, but Eichengreen is uncertain, believing that maturities will be adjusted, so the inflation would have to be very large or a set of repeated surprises. Faster growth is also not a promising solution for this, given that there has not been evidence (yet) of accelerated digitization. The best solution seems to be fiscal restraint (when the time is right), growing the country's economy, and avoiding deflation.

[50:33] Today, there are possibilities of crises that would be large enough to warrant a war-like response.

Climate change, future pandemics, and unknown crises. The interest rates may increase due to climate change, which could cause problems in running deficits. However, we will need to continue investing in climate change abatement, meaning that debt cannot be the only solution.

[52:36] The U.S. is able to borrow at favorable rates, but poor behavior may preclude this in the future if the dollar grows too volatile. Dollar debt is seen as a safe asset on the global stage, through extreme periods of dollar volatility.

VIDEOS:

Interactive world debt clock :

https://www.economist.com/content/global_debt_clock

US debt clock - real time :

https://www.usdebtclock.org/

COMMENTS / DISCUSSION

IRISH TIMES, Jan 13, 2022

In Defense of Public Debt, reviewed by Paschal Donohoe

The Minister for Finance, Simon Coveney, says this book lacks contemporary policy arguments.