Funding the Future

Has public debt become unmanageable?

https://www.taxresearch.org.uk/Blog/2025/12/20/has-public-debt-become-unmanageable/

Published: January 12, 2026, 8:33 pm

John Plnder, in the Financial Times today, has asked whether public debt in the developed world has become “fundamentally unmanageable”. The argument runs as follows:

* Debt is rising.
* Growth is weak.
* Interest rates are higher.
* Demographics are unfavourable, and
* Inflation can no longer be relied upon to erode liabilities.

Therefore, harsh bond-market discipline awaits.

That conclusion, however, is not just wrong: the article itself supplies the evidence for why it is wrong, but then draws exactly the opposite lesson.

Firstly, the article describes a savings glut and then blames governments for absorbing it. Plender notes persistently weak growth, excess savings, demand shortfalls, and rising reliance on public deficits. What it never acknowledges is the obvious implication, which is that the private sector is not investing enough.

Corporations are hoarding cash. Wealthy households are accumulating financial assets. Pension and insurance funds demand “safe” stores of value. There is a savings glut, and, as sectoral balance analysis shows, the excess private saving must be offset by deficits elsewhere. If households and firms will not spend, the government must. Public debt is therefore not evidence of irresponsibility. It is the mechanism by which the system avoids collapse. Wynne Godley demonstrated this in the 19900s. It seems that FT writers have not noticed, or used his economic identities to show what the problem is. The article treats the resulting growing government debt arising from savings as a problem. In fact, it is the only solution to a failure that the private sector refuses to correct.

Secondly, what Plender does not note is that the savings glut is inequality made visible. He talks about demographics and politics, but avoids the central issue, which is, of course, inequality.

When income and wealth concentrate at the top:

* Money stops circulating.
* Consumption falls relative to output.
* Investment becomes speculative rather than productive.
* Demand weakens, and then
* Governments must intervene to stabilise the economy.

Governments are then accused of burdening future generations, as Plender does (relying on the household analogy to do so, of course). This, however, reverses causality. Public debt is not the cause of stagnation. It is the consequence of an economy organised to funnel income upwards and leave it there. Debt is not the burden. Inequality is the burden. Debt is how its macroeconomic consequences are temporarily managed.

Thirdly, in this situation, the interest payments reward inaction and entrench the problem. Plender laments rising interest costs as if they were an external imposition. They are not. Interest is paid to those with surplus wealth because they choose not to invest productively, putting their money at risk as a result, in the hope of profit. The alternative, arising from their chosen inaction, is that under current conventions the state rewards them for holding inactive financial claims rather than building housing, energy systems, transport or productive capacity.

This is the deepest contradiction in Plkender's argument. Governments are criticised for rising debt while being required to pay income to the very actors whose failure to invest made that debt necessary. He fails to note that interest payments are not neutral. They are a transfer to wealth, enlarging the savings glut, increasing inequality, and ensuring future debt rises further. This is a massive error on his part.

In part, that is because Plender assumes markets dictate interest rates. They do not. His conclusion depends on the claim that markets ultimately impose discipline through yields. But this only holds if central banks choose not to act. Policies set:

* central bank base rates,
* central bank reserve account remuneration,
* bond market interventions, and

* regulatory frameworks.

The aim is to anchor yields. QE proved this. Yield-curve control proves it daily in Japan. Rising yields are not market verdicts; they are policy decisions dressed up as inevitability. Calling this “discipline” is a political choice, not an economic law.

Somewhat bizarrely, Plener cites Britain’s post-1945 debt reduction as evidence for discipline. But its own account shows otherwise. Debt fell because:

* Growth resumed.
* Inflation reduced real liabilities.
* Interest rates were kept low by institutional design.

The welfare state did not obstruct this. It stabilised it. The lesson is not that markets must rule, but that governments can choose the rules under which debt evolves. Plender ignored that.

The real conclusion in that case is not that public debt has not become unmanageable. What has become unsustainable is an economic system in which:

* Excess private saving is treated as virtuous.
* Inequality is ignored as a macroeconomic force.
* Excessive hoarding (matched by underinvestment in real economic activity) is rewarded with interest, and
* Democratic governments are told they must appease markets.

The FT article does not describe a crisis of public finance. Instead, it reveals a crisis in our economic narratives, which insist that governments are the problem, whilst carefully avoiding the evidence that makes clear that government intervention is unavoidable.

Blender ends with a warning that we might be facing a 1929-level crisis because of government debt. I agree that we might be facing a crisis, but he has all his causations wrong. We are facing a crisis because antisocial neoliberal capitalism is coming to the end of its road and has no answers left to offer, just as Plender has none to provide. The reality is that until the economic narrative changes, and we understand the crisis neoliberalism is creating, debt will keep rising, not because states are reckless, but because we refuse to confront the causes Plender so clearly describes, but fails to recognise.

Comments

When commenting, please take note of this blog's comment policy, **which is available here**. **Contravening this policy will result in comments being deleted before or after initial publication at the editor's sole discretion and without explanation being required or offered.**