

How Worried Should We Really Be About Government Debt?*

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It is not easy to conceive any thing more likely than [the progressive accumulation of debt] to lead to great & convulsive revolutions of Empire.

- Alexander Hamilton (1795). Report on a Plan for the Further Support of Public Credit.

In 2024, the United States government began spending more money paying interest on its debt than it spent on defense. According to the Congressional Budget Office (CBO), net interest payments reached 3.1% of GDP that year, while defense spending sat at 3.0%, the first time in nearly a century (Congressional Budget Office, 2025; Ferguson, 2025). No single vote ever decided it. No law announced it. It simply arrived, and most people only noticed it after the fact. And important to remember, in 2026 federal revenue covers net interest only about 5.4 times, and on the CBO's

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projections that ratio falls below 4 to 1 by 2036 (Congressional Budget Office, 2026). Clearly, the cushion is shrinking.

And it seems to get worse. For fiscal year 2026 net interest on debt is projected to reach \$1.0 trillion. This equals 3.3% of U.S. GDP and consumes roughly 19% of all federal revenue. The CBO projects that by 2036, annual net interest outlays will double to \$2.1 trillion, while national defense spending will grow at a much slower rate to reach \$1.1 trillion (Congressional Budget Office, 2026). Should we be worried?

The answer, apparently, is a resounding *YES!* Concerns about government debt are everywhere these days, from the usual suspects like *The Wall Street Journal* and the *Financial Times* to the more mainstream *New York Times*, *PBS* and the *BBC* among many others. The online podcasts I have been watching on this topic are too numerous to count, let alone mention. One of them, by Paul Warburg¹, largely inspired this essay. Warburg argues that the problem is far less dramatic than we are led to believe. I was not convinced, hence the title. Despite all this attention, governments continue to increase their debt levels unperturbed, as if it were a rather harmless phenomenon. Is it? My own answer, as you will see, is yes, but not always for the reasons you hear on the news.

The current level of debt in the U.S. is about \$40 trillion (gross). Large enough not to have much meaning to the average person. Even to me, a PhD economist, these numbers are hard to grasp.

Two Views on Government Money and Debt

Debt at this scale forces a choice between two competing views of what government money is. Each is defended by “experts” convinced the other overlooks the obvious. One view compares a government to a very large household; and households that borrow consistently eventually lose the house. The other side says a national government that issues its own

¹ Paul Warburg is an independent, open-source geopolitical analyst. His *YouTube* channel has over 450,000 subscribers and has produced 300 podcasts. The podcast in question was called “The U.S. National Debt Just Reached a Bleak Milestone” and premiered on August 23, 2026. It can be found here: <https://www.youtube.com/watch?v=8HJjr0gyiP0&t=250s>

currency is unlike a household, so treating its debt like a mortgage is a flawed analogy.

The objective of this essay is to better understand the implications of what each side is claiming and how a concept called “Modern Monetary Theory” (MMT) fits into that argument. And just as important, how much of either claim has actually been tested in the real world.

The Worriers' Case

The simplest, most intuitive argument against government debt is that money borrowed today has to be repaid and come from somewhere tomorrow. Either from higher taxes, from cuts elsewhere, or from money created to cover the gap; and each of those options taxes someone.

Economists have tried to identify the point at which government debt stops being manageable and becomes risky. The problem is that no single threshold applies across different countries or periods. An attempt was made by Reinhart and Rogoff (2010) who argued that growth slows sharply once public debt rises above 90% of GDP. That figure became instrumental in budgets and parliamentary debates on both sides of the Atlantic. That is until a careful review of the underlying spreadsheet revealed that a coding error had caused five countries (Australia, Austria, Belgium, Canada, and Denmark) to be entirely omitted from the calculations. Correcting those errors largely erased the apparent “cliff” (Herndon et al., 2014). Later studies have indeed found possible warning zones, but the estimates vary widely: around 60% of GDP for developing economies and roughly 90% for advanced ones (Bilan & Ihnatov, 2015; Fir, 2022; Mencinger et al., 2014; Ostrihon et al., 2023; Mitsi, 2025). However, this same literature also shows its limits: debt thresholds are highly sensitive to which countries and years are included (Mattret, 2020; Michael, 2022).

Frankly, the literature seems to agree more on the possible consequences of high debt levels than on specific thresholds. Let’s be honest, the general public rarely understands the mechanics and politicians rarely look beyond the next election. But the possible consequences are real. Heavy government borrowing can push up interest rates and crowd out private investment. A large debt can make households and businesses anticipate

future tax increases and reduce their own spending and investment in response.

When bond markets grow nervous, they don't just demand answers; they exact a penalty. We see this happening today, where the \$29 trillion U.S. Treasury market is enduring a significant sell-off (U.S. Department of the Treasury, 2026). Investors are demanding the highest returns in nearly two decades to lend money to the U.S. government: on September 26, 2026, the yield on ten-year Treasuries reached 5.23%, its highest level since 2007 (Board of Governors of the Federal Reserve System, 2026). Still, this can continue long before the U.S. government actually runs out of money.

There is also clear evidence pointing the other way. Japan has carried gross public debt above 200% of GDP for well over a decade, while borrowing for years at interest rates near zero, although its yields have risen since the Bank of Japan began raising rates in 2024. And the remedy the worriers traditionally prescribe, namely austerity, has costs of its own (Konzelmann, 2014).

Ferguson's Law

I would be remiss not to include the work of historian Niall Ferguson here. Ferguson identified a pattern going back five centuries: once a great power is spending more on servicing its debt than on defending itself (a threshold he calls "Ferguson's Law"), its days as a serious power tend to be numbered (Ferguson, 2025). America, take notice?

Spain is his clearest case. By the late 17th century, payments on its long-term bonds had grown from 52% of government revenue to 87% within twenty years. This was the moment when Spain most needed the loans to fund its armies, which were fighting on several fronts at once. A bit more recently, the Austro-Hungarian Empire spent most of its final half century on the wrong side of Ferguson's line. The resulting weakness in its military left it unable to deter Serbia, and the Balkan crisis eventually dragged most of Europe into war in 1914. The point of both cases is that fiscal fragility can shape geopolitics even when no default ever actually occurs.

But are such outcomes unavoidable? Interwar Britain crossed the same Ferguson Line and survived it, which shows that although the pattern is strong, it does not apply universally. This "survival" came partly from severe

spending cuts in the 1920s, but mainly, according to Ferguson, from falling interest rates in the 1930s and from inflating away much of the war debt after 1945. Whether the United States will be equally fortunate is an open question, and depends on whether real interest rates exceed real economic growth in the years ahead (Ferguson, 2025). I will come back to this later.

The Other Side of the Ledger

Now let's consider the opposite reasoning; that is, from the Modern Monetary Theory's perspective. A government borrowing in its own currency, the argument goes, cannot run out of the money it can issue. I deliberately avoid the term "printing money"² here as it is technically incorrect. Every dollar (or pound) the government injects into the economy has to end up in somebody's pocket. Every bond it issues becomes somebody's savings. If you look at it this way, government debt is not, as so often argued, a burden waiting to fall on future generations; it is simply the private wealth those same generations will inherit, recorded on the other side of the ledger.

British accounting professor Richard Murphy (2025) makes the same point in accounting terms: every pound owed is an asset held by banks, pension funds, and insurers that depend on it. Reducing debt therefore destroys private wealth rather than merely shrinking an abstract liability. This is Accounting 101: one sector's deficit is another's surplus. What it does not show is the scale of transfers between sectors or who bears them; the central dispute between the two camps.

Warburg points out that roughly three-quarters of American debt is ultimately owned by its citizens and institutions, so the interest payments the government makes do not vanish; they become income that gets spent, taxed, and recirculated through the very economy that generated them in the first place. However, that three-quarters figure needs a caveat: it counts

² When people say the government is "printing money" to fund spending or stimulate the economy, no paper is involved. It happens electronically through the Federal Reserve (the U.S. central bank) and commercial banks. The Fed has the unique legal authority to create money. It does this through a process called Open Market Operations: The Fed decides to inject money into the financial system. It electronically buys government bonds (Treasuries) on the secondary market from major banks (Primary Dealers). To pay for these bonds, the Fed simply credits the banks' digital reserve accounts with newly created dollars. Commercial banks create most of the money in circulation when they make loans.

the Federal Reserve and government trust funds as American owners, so the share held by private households and firms is considerably smaller than it sounds. The recirculation point survives the correction; the headline number oversells it. The household-budget metaphor that is so often used, Warburg argues, is close to a “category error”, since no household can print the currency to pay off its debt. In short, he believes that the problem is not as dramatic as we are often led to believe, and notes that every Treasury auction still attracts more than twice the bids needed.

To be fair, Modern Monetary Theory does not claim government spending has no cost. On the contrary, it recognizes that the main danger for countries that issue their own money is rising prices (i.e. inflation), not running out of money (Mitchell, 2013).

The thing is, MMT takes the idea of government spending much further than traditional economists can comfortably live with. Far from being just an abstract theory, MMT provides serious arguments for bold government plans. For example, it supports guaranteeing a job to anyone who wants one. And it argues that governments that issue their own money never lack cash, *only the political will to spend it* (Wray, 2012; Kelton, 2020). Warren Mosler³ often said it this way: a government can no more run out of dollars than a football stadium can run out of points to award on the scoreboard. The constraints are never financial; they are strictly bounded by real resource availability and political will.

To justly evaluate MMT, however, we have to separate its assertions into two distinct categories, as the evidence for each is different.

The test record

The first, narrower claim is that a government issuing its own currency faces a fundamentally different kind of financial risk than a household, a company, or a government that borrows in someone else's currency. This claim has held up reasonably well based on the raw data. A study of 17 advanced economies from 1973 to 2016 found that monetarily sovereign governments do not face the same interest-rate penalty for running deficits that other

³ Warren Mosler is an American financier, and the co-founder of Modern Monetary Theory. His white paper, *Soft Currency Economics* (1993), established the MMT's core operational principle: that a sovereign issuer of fiat currency faces physical resource limits rather than monetary ones, meaning it can never run out of its own money and utilizes taxation to create demand for its currency rather than to fund state spending.

governments do (Kim, 2022). A broader study going back to 1879 reached a similar conclusion (Kim & Tymoigne, 2024). A separate analysis of the United States and Japan over three decades found no clear evidence that government deficits directly caused either crowding out or inflation in either country (Dubey, 2023). And a 2023 study by the International Monetary Fund and the Bank for International Settlements, examining 48 emerging and 34 advanced economies, found that unexpected increases in government debt push up long-term inflation expectations in emerging markets, but not in advanced ones, with the effect concentrated specifically in countries whose debt is heavily dollarized, or whose central banks lack a credible inflation-targeting framework (Brandão-Marques et al., 2023).

The sources of this evidence matter. Kim and Tymoigne write within the MMT tradition, whereas the IMF and BIS economists were not defending any theory; their study examines inflation expectations without mentioning MMT. Dubey likewise does not mention MMT. Yet all three reach findings consistent with MMT's core prediction: sovereign and non-sovereign borrowers face different constraints. On the other side, Patrick Minford, one of the authors of the study discussed below, has long been a critic of this kind of economics.

The second, far more ambitious claim is that a government can spend its way toward full employment more or less indefinitely, with inflation as the only real constraint on how much it borrows. This claim has been tested directly, as a complete, whole-economy system rather than as an isolated proposition. And it did not survive the test. The researchers built a full macroeconomic model incorporating MMT's policy rules and ran it against actual post-financial-crisis U.S. data. The results were such that the theory's predictions were rejected by the numbers and that adopting its rules would likely have produced a real welfare loss compared to a conventional framework (Liu et al., 2024).

A related modeling exercise found that the theory's job guarantee proposal cannot deliver full employment without the familiar trade-off between inflation and unemployment simply reappearing in a different form (Carnevali & Deleidi, 2023). Proponents of the theory, for their part, argue that this kind of formal modeling is the wrong test, that the theory's real evidence lies in institutional description and accounting logic rather than in equations calibrated against historical data (Tymoigne & Wray, 2015).

That disagreement is itself worth reflecting on, because it explains why this argument has persisted for decades now, without resolution. The two camps are not simply reading the same evidence differently. They disagree about what should be allowed to count as evidence in the first place, and a critic pointing to Weimar Germany or Argentina as proof that “printing money always ends badly” (Ocampo, 2020) is met with the fair objection that neither country closely resembles a modern advanced economy with a credible, independent central bank.

The eurozone experiment

Between 2010 and 2012, investors abruptly turned on several countries using the euro, and the pattern of who got punished, and how badly, became one of the clearer real-world experiments in modern economics.

My Belgian colleague Paul De Grauwe describes why the debt crisis struck the eurozone at all, given that its overall fiscal position was, at the time, actually stronger than that of the United States or the United Kingdom. Both of which escaped a comparable sovereign debt crisis entirely (De Grauwe & Ji, 2013). Because the US and UK control their own sovereign currencies, their central banks could act as lenders of last resort, shielding them from the bond market runs that devastated the Eurozone.

Their analysis rests on the same distinction MMT emphasizes, although De Grauwe does not write from within MMT. A country that borrows in its own currency can always call on its own central bank for the liquidity needed to avoid default, no matter how nervous investors become. A country that has adopted someone else's currency, or a shared currency it does not individually control, cannot offer that guarantee, and that absence, rather than the underlying debt figures themselves, is what left it exposed.

Statistically, De Grauwe & Ji found that a significant part of the surge in borrowing costs of the peripheral countries during 2010 and 2011 was disconnected from what those countries' actual debt levels and fiscal positions could explain. Instead, it was driven by a self-reinforcing shift in market sentiment, the financial equivalent of a bank run. Comparable stand-alone countries carrying similarly high or rising debt loads, from Japan to the United States, faced no such penalty.

Looking more closely at whether countries were “punished” for weak fundamentals or mainly by fear is revealing. About 60% of the widening bond spreads⁴ in Greece could be explained by the country's worsening economic conditions. The market, in other words, was largely right about Greece being in serious financial trouble. In Ireland and Portugal it was about half. In Spain, and in core countries such as Belgium, the opposite was true: the great majority of the increase in borrowing costs had little to do with the countries' actual finances and almost everything to do with contagious pessimism (De Grauwe & Ji, 2013).

Following the June 2010 elections, political divisions left Belgium without a new federal government for a record 541 days. Heightened by the Eurozone debt crisis, the prolonged impasse contributed to a November 2011 S&P credit downgrade. That day, Belgian 10-year bond yields reached 5.86%, up from under 4% six weeks earlier (CNN Money, 2011).

MMT advocates reach a similar conclusion about currency unions. Richard Murphy, whom I mentioned earlier, acknowledges that eurozone states such as Belgium are currency users, not issuers: unlike Britain, they cannot direct a national central bank to create money, and Greece showed they can go bust (Murphy, 2026). This concession supports De Grauwe and Ji's findings...from within the MMT camp.

The debate does not end there, however. Some economists sympathetic to the MMT, like Dirk Ehnts, argue that the eurozone, considered as a whole rather than country by country, behaves like a genuine currency issuer once the European Central Bank starts buying government bonds at scale, as it did from 2010, promised to do without limit in 2012, and did on a large scale from 2015 (Ehnts, 2017). Even Murphy, when pressed on this point, conceded that MMT works within country-specific constraints (Murphy, 2026). In other words, the eurozone as a whole can act like a currency issuer, but only when the ECB decides to act. No single member can rely on it.

I don't think that is such a bad thing. The fact that no single Eurozone country can print its own money creates a certain level of stability.

⁴ Yield spread: The difference in interest rates between a nation's government bonds and a safe benchmark (typically Germany's bonds in the Eurozone). A wider spread indicates that markets view the country (Greece) as riskier, forcing it to pay higher interest to borrow money.

Transferring monetary control to the independent European Central Bank prevents hyperinflation, lowers borrowing costs for smaller nations, and forces governments to maintain strict budget discipline.

So How Worried Should We Be?

Now we return to our original question. How concerning is national debt, really? Is national debt actually a threat? After weighing five centuries of history (Ferguson) against a body of economic theory barely three decades old, the honest answer is less satisfying than either camp would like, and more useful for exactly that reason.

The traditional worriers are right that debt is never truly free of consequence. History offers real, specific warnings about what happens when a great power, such as the U.S., stops paying attention to the balance between what it owes and what it can defend. Ferguson's cases are not mere illustrations. They describe an actual mechanism; debt service crowding out the resources a state needs to remain a serious power. A phenomenon that has recurred across five hundred years of otherwise very different regions and societies.

An MMT reader will object that Ferguson's cases do not apply. Habsburg Spain borrowed from foreign bankers; Austria-Hungary and interwar Britain were tied to gold. None of them could create its own money. That is true, but it misses Ferguson's point. His law is not about running out of money. It is about the budget: every dollar paid in interest is a dollar not spent on defense. Mosler himself says the only real limits are real resources and political will. Ferguson's Law describes exactly such a limit.

Earlier I promised to come back to the question whether the United States resembles interwar Britain or Habsburg Spain. Whether real interest rates are exceeding real economic growth. For most of the past century, the American economy grew faster than the interest bill compounded, which is how wartime debts were whittled away as much by a growing denominator as by repayment. That cushion has narrowed in recent years. If real rates persistently exceed real growth, debt compounds against you no matter what any accounting identity says.

So, the key condition is $g > r$. Meaning that if the rate of economic growth (g) exceeds the effective interest rate on government debt (r), the national

debt-to-GDP ratio naturally shrinks over time. If growth outruns interest, even very large debts can remain stable. I think, that is what America is counting on. Wishful thinking? The condition holds only if the government is not adding large new deficits every year. The United States runs a deficit of about 2.5% of GDP even before interest payments, so the ratio keeps rising. And under the CBO's own baseline, the average interest rate on federal debt will exceed economic growth later in this decade (Committee for a Responsible Federal Budget, 2026). Martin Wolf of the Financial Times, hardly an alarmist, puts numbers on the danger: once debt reaches 150% to 180% of GDP and real interest rates rise to 4% or 5%, debt becomes fiscally unmanageable (Wolf, 2025). The likely way out, as Britain found after 1945, would be inflation.

Obviously, the MMT camp is right on one issue. Comparing a currency-issuing government to an indebted household is close to nonsense. The eurozone crisis proves this with real numbers: the currency in which a country borrows largely determines its exposure to a confidence crisis. A fact conceded by the theory's own defenders, as by its critics.

What strikes me is how little of MMT's boldest promise, prosperity without meaningful limits for any government able to issue its own currency, has actually been put to a rigorous test. Remember, the only whole-economy test against actual data *failed*. Only a handful of narrower, more modest claims about monetary sovereignty and interest-rate risk have held up reasonably well. That is not a track record on which anyone should build serious policy, in either direction.

Yes, one should definitely worry about rising debt levels either way. If you side with traditional economics, there is legitimate reason for concern regarding rising interest burdens crowding out public investments and higher bond yields driving up borrowing costs for businesses and consumers. If you lean more toward Modern Monetary Theory, national solvency is not a concern, since a currency-issuing government cannot run out of its own money. But you should worry about inflation if public spending exceeds the economy's real resources. So we keep watching for which theory the next crisis actually vindicates. I guess the next turn of this story will not arrive with a vote, or a law. It will simply arrive, and most of us will notice it after the fact, unless we have been watching the right numbers.

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