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# The Welfare State Is Bankrupt - Global Debt Soars



Many citizens ignore the elevated risks of constantly rising public debt. People often ask themselves, "Why do I care? It does not affect me." However, it does. A lot.

Rising government debt means economic stagnation, weaker real wage growth, higher taxes, and persistent inflation. The only way to reduce debt is to stop the constant increase in government spending because high taxes are not a tool to reduce debt but to justify it.

In the first half of 2025, global debt **hit** an all-time high, and the world is now going through a crisis that is especially challenging in developed countries like France, Japan, and the UK.

The rising levels of sovereign debt, the need for record amounts of refinancing, and the possibility of higher interest rates are all changing the outlook for the economy, threatening growth, and putting pressure on policymakers to make real changes.

## Driving force behind the increase in global debt

What the mainstream does not want to admit is that the welfare state in developed economies is unsustainable and unfinanceable, and the model of rising taxes and uncontrolled spending has created a global debt crisis.

By the second quarter of 2025, the world's debt had **reached** an amazing \$337.7 trillion, an increase of more than \$21 trillion in just the first half of the year. The debt-to-GDP ratio is still over 235%, which is a tremendous **burden** on the world's economy.

**Investors have lost their confidence, and governments have exhausted their fiscal space**

Governments are the driving force behind this increase in global debt. Government borrowing has gone up faster than private sector deleveraging. Public debt is now \$99.2

trillion, which proves the big mistake of betting on government intervention around the world.

Policymakers promised that the enormous public sector stimulus plans would strengthen the economy, and they have worsened it. The world's debt has reached levels like those during the peak of the COVID-19 crisis.

Investors have lost their confidence, and governments have exhausted their fiscal space. Interest expenses rise despite central bank rate cuts, and the global central banks are abandoning sovereign debt as a reserve asset to concentrate on increasing purchases of gold.

## Lessons from France, Japan, and the UK

France is one of the most obvious examples of fiscal irresponsibility. In September 2025, public debt **reached** an all-time high of €3.4 trillion (\$4 trillion), which was 115.6% of GDP. The deficit is expected to be 5.4% of GDP in 2025, which could lead to more credit downgrades for France.

The cost of servicing French debt is rising, with payments expected to more than double from €59 billion in 2024 to over €100 billion by the end of the decade. This is the biggest single item in the budget.

France has never implemented austerity measures, yet it maintains the largest government spending in the OECD and the highest tax wedge. Those that promote the idea that more public spending and taxes are the solution to the world's fiscal challenges should remember the lesson from France: a debt crisis and no fiscal space.

While France was the poster boy of the welfare state and big government, it faces a debt crisis, and it is not the only country to do so.

The welfare state has proven to be unsustainable in all developed economies.

Japan is another example. In March 2025, the central government's **debt** reached 1,324 trillion yen (\$9.46 trillion), which was 234.9% of GDP. The prime minister announced that Japan's fiscal situation was worse than Greece's in the 2008 crisis.

**In 2025, the UK's government debt was £2.7 trillion, which was 104% of GDP**

A structural debt overhang has built up over decades of fiscal stimulus and uncontrolled government spending amidst a decline in population. Japan's long-term bond yields have reached record highs and prove that the market's mood has changed.

Japan now spends a quarter of its entire budget on interest. The threat of a fiscal crisis is evident, and no politician seems to want to address the unsustainable levels of government spending.

Another example of a broken welfare system is the UK. In 2025, the UK's government debt was £2.7 trillion, which was 104% of GDP. The government has **tried** to disguise this by inventing a new way of measuring debt, but no one believes their made-up 96.4%.

Regardless, the evidence of unsustainable spending is overwhelming. Chancellor Rachel Reeves is under pressure to act, as forecasts warn of a £41.2 billion borrowing gap, and calls for new taxes remind us that increasing taxation only led the UK to stagnation, while debt keeps rising.

The fiscal deficit has risen to £72.6 billion in the year ending March 2025, and gilt yields remain above 4.6% for the 10-year bond, making borrowing more expensive. The government says it aims to keep debt-to-GDP stable by 2030, but this goal is impossible to reach by implementing anti-growth policies, hurting job creation and investment with unacceptable taxes and keeping all unnecessary spending untouched.

## The era of easy money has ended

As I've said in a few of my recent pieces, the "wall of debt" means that governments and businesses will have to refinance trillions of dollars over the next two years at much higher rates and with less investor demand.



*When governments reject the idea of structural reforms, they are creating the basis of the next inflationary and fiscal crisis. The era of easy money has ended - Daniel Lacalle*

Risky public debt issued when rates were almost zero will have to be refinanced, and governments would rather not acknowledge the unsustainable spending levels they have reached.

All the above-mentioned nations are, again, announcing more taxes, which will drive out private investment and hurt productivity. Furthermore, the average taxpayer is exhausted. Public debt is not just a technical issue; it slows down economic growth, lowers real wages, and makes it harder for the government to respond to new crises.

The record amount of debt, the unwillingness of politicians to make real changes to spending, and the rise in interest rates are all coming together to create a historic moment.

Global investors and central banks do not trust policymakers that can only resort to tax hikes. If there are not any structural changes to an unsustainable welfare state where unfunded liabilities reach 400% of GDP in the case of France, many advanced economies will remain

stuck in a cycle of stagnation, rising interest expenses, and declining investor confidence.

When governments reject the idea of structural reforms, they are creating the basis of the next inflationary and fiscal crisis. The era of easy money has ended.