

Rich nations face increased debt burden



By Alan Beattie in Washington

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The government debt burden shouldered by employees in the rich world will more than double between 2007 and 2015 as an ageing population puts rising strain on welfare and health systems in advanced economies.

In new calculations for the Financial Times, Eswar Prasad, a former International Monetary Fund official now at the Brookings Institution and Cornell University, finds that the rich economies will owe a rapidly rising share of **public debt worldwide**, while contributing relatively less to global growth.

Rich countries already experiencing heavy demographic pressures on their public finances, such as Japan, will be joined by others, such as the US, which is beginning to experience the full force of the postwar "baby boomer" generation retiring.

Professor Prasad finds, rich countries will see the average government debt per person of working age rise from \$31,700 in 2007 to \$68,500 in 2015.

Of the sample of more than 50 countries, the US, which has enjoyed a relatively benign demographic profile, goes from having the 11th heaviest debt burden per employee in 2007 to the third highest by 2015.

The increasing burden of servicing public debt falling on a relatively smaller workforce will imperil growth and stability, Prof Prasad says.

"Advanced economies had better get their fiscal act together once the recovery is better entrenched," he says.

"It will take strong political will to tackle near-term deficits and then to control the growth in entitlement spending. In the absence of decisive action, ballooning public debt in the advanced economies could become a major threat to domestic and global financial stability."

The ratio of government debt to gross domestic product around the world has risen as a result of the global financial crisis, as governments have supported their economies and financial systems with public spending.

But while those burdens are likely to start shrinking again in emerging markets, they will rise in the rich world as the impact of an ageing population continues to weigh.

Globally, the rich countries will contribute markedly more to the overall worldwide debt burden than they will to economic growth.

Middle-income countries accounted for 10 per cent of the increase in global debt levels from 2007 to 2010 and are projected to account for 13 per cent of the increase from 2010 to 2015.

But they contributed 70 per cent of the growth in global nominal GDP from 2007 to 2010 and will contribute 54 per cent from 2010 to 2015.

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The burden of public debt



Interactive graphic: Compare the levels of public debt across economies.