Global Debt At Record Levels and Rates Are "Going A Lot Higher"

By Peter Schiff & Michael Maharrey

Schiff says "the government is lying about inflation".

Global debt rose $10 trillion to a record $397 trillion in the first half of 2023, according to the Institute of International Finance (IIF).

The big increase in debt occurred despite tightening credit conditions, and it is an increasingly worrisome problem because the "free lunch" of artificially low interest rates is over.

Over the last decade, global debt has increased by a staggering $100 trillion.

Combined government, household and corporate debt hit 336% of global GDP in the second quarter of this year. The global debt-to-GDP ratio has increased by 2 percentage points this year. Prior to 2023, the global debt-to-GDP ratio had declined seven straight quarters after reaching a record of 360% at the height of the global pandemic government lockdowns.

About 80% of the new global debt was piled up by developed nations, with Japan, the US, Britain and France leading the way. Among emerging markets, the largest economies saw the biggest debt increases, including China, Brazil and India.

"As higher rates and higher debt levels push government interest expenses higher, domestic debt strains are set to increase," the IIF said in a statement.

Peter Praet served as chief economist at the European Central Bank. He told *Reuters* that the debt levels are still sustainable, but the outlook is worrying given the fact that spending needs aren't going to decline.

You can take many, many countries today, and you will see that we are not far away from a public finances crisis."

Praet seems over-optimistic.

The US government is over $33 trillion in debt. In fact, the Biden administration managed to add half a trillion dollars to the debt in just 20 days. Meanwhile, with rising interest rates, the federal government is now spending as much to make interest payments on the debt as it is for national defense.

And there is no end to the borrowing and spending in sight.

More than a decade of interest rates pushed artificially low by central banks worldwide incentivized a tidal wave of borrowing. This was intentional.

The thinking was that borrowing and spending would "stimulate" a global economy dragged down first by the Great Recession and then by government-instituted pandemic policies. Nobody ever stopped to think the easy-money gravy train might run out of track.

But as Fitch Ratings managing director Edward Parker put it, ***"*****That free lunch is over and interest payments are now rising faster than debt or revenue."**

The US economy in particular was built on borrowing and spending. Easy money is its lifeblood. It simply can't run without artificially low interest rates. The global economy is in much the same boat.

That puts the Federal Reserve and other central banks between a rock and a hard place. They need to keep interest rates high to counteract the trillions of dollars they created and injected into the global economy as stimulus causing a rapid increase in price inflation.

But these higher rates will ultimately break things in the borrow-and-spend economy.

The CPI has cooled in recent months, but Americans say they're still struggling with rising prices and they're worried about inflation. Why is there this dichotomy between people's perceptions and the official data?

Peter Schiff recently appeared on *Real America* with Dan Ball to talk about the economy. He said the problem is the government isn't being honest about inflation.

Dan opened the interview noting that the recent fight over the House speaker wasn't really about the speaker. It was about the enormous national debt and ever-increasing government spending. **The US government added over $1 trillion to the national debt in just three months. Dan said he doesn't see any "silver clouds" in the future. Peter agreed, saying it's "all rain clouds."**

The problem has been over a decade of reckless spending financed by debt on the part of not only just the federal government, but look at all the state and municipal governments, corporate America, households — everybody has gorged themselves on this debt fest that was served by the Federal Reserve."

Artificially low interest rates incentivized this borrowing for the better part of a decade. Now we have a pile of debt that can never be repaid.

The only thing we were able to do is pay the interest because it was practically ***zero. Well, now its not zero anymore. The prime rate is at eight-and-a-half, so, many people are paying more than 10% to borrow money. Long-term Treasuries are almost at 5%. They haven't yielded that much in over 15 years. But they're going a lot higher. We're still early in this journey back to normal rates. And in fact, we're not going to have normal rates. We're***

going to actually have higher than normal rates. But the problem is we can't handle it because we have much higher than normal debt."

Dan noted that [credit card debt has skyrocketed]while [savings have plummeted]. But higher interest rates should slow spending and increase savings. Peter said this just goes to show the Fed's inflation fight isn't working.

It's not resulting in more savings. It's just resulting in more spending. The problem is people are spending more but buying less because the extra spending is a function of higher prices."

Dan played a clip of a man walking through Costco showing how much prices have gone up in the last year. It's clear that a lot of prices have risen far more than the CPI data reveals. Peter said those photos don't lie.

It's just the CPI that lies."

In 2013, the CPI indicated that the cost of newspapers and magazines had increased by 30% over the previous 10 years. Peter went back and looked at the actual prices. The real increase was 130%. What happened to that other 100%?

Obviously, it got lost in the sauce of the CPI. So, the government is not honest about inflation."

Peter said this is one of the reasons President Biden is so unpopular.

The reason his popularity is so low is because the economy stinks. It's because inflation is so much higher than the CPI reflects. That's why people are struggling. That's why so many people have second and third jobs. They can't make ends meet with their first job because the cost of living has gone up so much."

Is there any good news? Peter said there really isn't, but you can try to protect yourself.

Once you recognize the problem, even though you can't solve it or do anything about it, you can at least protect yourself, protect your family. You can invest in the right things. You can buy gold or silver and get out of US currency. You can buy quality assets around the world — dividend-paying foreign stocks to try to protect your wealth. Because this inflation tax is going to get much, much higher in the coming years, and if you don't want to pay the tax, then you've got to do whatever you can to avoid it as best can by divesting of what's being taxed, which is your dollars. Your paycheck is going to be taxed, your savings, your investments. But to the extent that you can get some of that out of the US dollar, you can at least avoid part of that inflation tax."