French government's fall expresses mounting global debt crisis

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The fall of the French government on Monday because of its failure to get through parliament an austerity program to deal with rising government debt is a very sharp political expression of the developing debt crisis in all the major economies.

In the period since the global financial crisis of 2008, governments have been piling up debt at an accelerating rate, particularly after the onset of the COVID-19 pandemic, as they provided bailouts to corporations and major tax cuts for businesses and the wealthy.

France is illustrative of this process. The Bayrou government was seeking spending cuts of €44 billion. But according to calculations reported in the *New York Times*, tax receipts have fallen to 51 percent of GDP from 54 percent from 2017 when president Macron took office, with one estimate being that the tax cuts have resulted in a loss of €50 billion annually to government revenue.

France has a government debt of €3.35 trillion which is expected to comprise 116 percent of GDP this year.

The French government, as with many others, has been able to pile up debt to historically unprecedented levels because for a decade and a half after the 2008 crisis, followed by the euro crisis of 2012, central banks kept interest rates at or near zero. But now the chickens have come home to roost and with the rise in interest rates since 2022 the interest bill has soared. In the case of France, it has risen from €26 billion in 2020 to €66 billion today.

The French financial crisis is the expression of a rapidly developing global trend. According to the International Monetary Fund, the amount of debt as a percentage of annual economic output has doubled since 2007 to reach 80 percent. The IMF has said public debt could reach 100 percent of global GDP by the end of the decade. The United Nations agency UNCTAD reported that global public debt reached around $102 trillion in 2024, an increase of $5 trillion over the previous year.

The interest bill on government debt around the world rose to $2.72 trillion last year, an increase of 11.2 percent from the previous year.

The rise of government debt has seen a sharp spike in global bond markets, particularly at the longer end.

In the UK, the yield or interest rate on 30-year bonds has touched 5.75 percent, the highest level since 1998. Next year the interest bill on government debt is expected to reach the equivalent of $150 billion, nearly twice what is spent on the military. Debt is now at 100 percent of GDP and on present trends will rise rapidly in coming years.

According to Ruth Gregory, deputy chief UK economist at Capital Economics, whose remarks were cited in the *Wall Street Journal* (WSJ): "The UK isn't alone in all of this. There is a common theme across many G-7 countries that do seem to be in place for a potential fiscal crisis, although that doesn't mean a crisis in imminent or inevitable."

However, she went on to warn that the UK was a "potential tinderbox" where a market crisis at home or abroad could lead to a jump in interest rates.

The UK has already experienced such an event. In 2022 the attempt by the short-lived Liz Truss Tory government to fund tax cuts to corporations with debt led to a bond market crisis into which the Bank of England had to intervene with a rescue operation. It was significant that this crisis had a completely unexpected source in that it involved pension funds.

Since then, the overall financial situation has worsened because the British economy is not growing fast enough to generate the revenue to cover debt and balance the budget.

Summing up the significance of the situation in the UK—the “canary in the coal mine,” a designation increasingly being used—Stephen Innes of SPI Asset Management wrote that “that the air is getting thinner in the sovereign debt mines.”

“The first cough isn’t coming from the usual fragile corners of emerging markets but from the heart of the developed world. UK gilts—those once staid, gentlemanly instruments of British prudence—are now whistling a warning note that reverberates far beyond Threadneedle Street.”

He noted that even Japan, where bonds typically “dozed undisturbed,” had been “shaken awake” as yields on 30-year bonds hit record highs. “Canada, Germany, name your sovereign—the strain is everywhere.”

The debt crisis is most severe in the US, the heart of the global capitalist system. Government debt has risen to $37 trillion and the interest bill of $1 trillion a year is rivalling the budget outlays on the biggest discretionary item, military spending. If the US had not yet reached the stage of France or the UK, it is only because the dollar is the global currency providing it with “exorbitant privilege.”

But the dollar’s role is being called into question. Throughout this year its value has been falling in international markets—it is down 10 percent from the start of year—and there is growing concern about the stability of US financial institutions which form the foundation of the global financial system.

In a comment published in the *Wall Street Journal*, Ken Griffin, the CEO of a multi-billion-dollar hedge fund, warned about the stability of inflation and the sustainability of public finances in the face of president Trump’s attack on the Federal Reserve.

“The president’s strategy of publicly criticising the Fed, suggesting the dismissal of governors, and pressuring the central bank to adopt a more permissive stance toward inflation carries steep costs. These actions raise inflation expectations, increase market risk premiums, and weaken investor confidence in US institutions.”

He said that while the US benefited from a “a stock of credibility” built over decades, it was not limitless. “If eroded, markets will demand far higher rates for longer-term debt.”

The erosion of confidence in the US and the dollar is seen in the rising price of gold. On Monday it reached $3600 per ounce, hitting $3500 just a week before.

In what the *Financial Times* described as its “blistering performance,” it has risen by 9 percent over the past three weeks and by 37 percent since the start of the year. The view from financial analysts is that its rise will continue—it may even reach $4000 by the end of the year—as foreign demand shifts from US Treasury bonds to gold and loses confidence in the US.

The shifts in the bond market indicate that a turning point is being reached. As Bloomberg columnist Allison Schrager recently noted the major economies have “no earthly way of paying for all of their debt.”

“The last few decades of low rates lulled investors, companies and governments into believing that they could keep borrowing and not face any costs—that they could essentially live in a world without economic trade-offs. Higher rates mark the end of this era of magical thinking.”

She did not specify or go into detail as to what those “trade-offs” would be. But they are already emerging in plain sight. They involve massive attacks on the social position of the working class and all the gains of the post- World War II period, accompanied by escalation of authoritarian and fascist forms of rule to impose them, the development of which is already well underway.