The US borrowing surge: Outpacing Europe for the foreseeable future

By Jesper Rangvid

Since the 2007 financial crisis, the US has borrowed significantly more than Europe to fund higher public spending, which has contributed to faster economic growth in the US. But what about the future? Will the US continue to outpace Europe in borrowing?

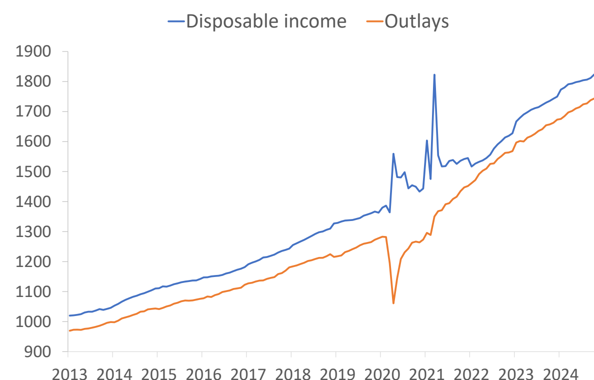
In my previous analysis (link), I highlighted how the US has borrowed significantly more than Europe (the euro area) since the global financial crisis of 2007. While the debt-to-GDP ratio in the euro area has risen by approximately 20 percentage points, the US has seen an increase three times greater—around 60 percentage points. I also argued that not all government spending is wasteful. Hence, this substantial rise in US public expenditure has supported economic growth, which helps explain the growth gap between the US and Europe. Although it is challenging to quantify exactly how much this spending has boosted US growth relative to Europe, it is at least a factor worth remembering.

I am fortunate to have many thoughtful readers who comment on my posts—thank you! The responses to my last post were especially interesting. They ranged from: "*THANK YOU, Jesper, for highlighting that this is a factor worth considering when critiquing Europe's slower growth. It's been largely overlooked in the debate*" to "*I think you're onto something, but the US outperformance is primarily driven by favourable demographics and stronger productivity growth.*"

Here's my take: Yes, the US has benefited from more favourable demographics, greater innovation, higher productivity growth, and better-performing companies compared to Europe. And, yes, Europe's largest economy, Germany, suffers from several severe structural challenges. However, we cannot ignore the role of government borrowing. When a country borrows as much as the US has—40 percentage points of GDP more than Europe—it will have a tangible effect on economic activity. Government spending does not fully crowd out private spending, and Ricardian Equivalence does not hold perfectly, is my view.

To emphasise the point, do you recall the graph I shared in a previous analysis, showing household disposable income and outlays during the Covid-19 pandemic (link)? An updated version is included below as Figure 1.

Figure 1*. Total personal disposable income and personal outlays in the US, monthly data, billions of USD.*
Source: FRED of St. Louis Fed and J. Rangvid.



In the figure, you see three distinct spikes in disposable income. I wrote: "*Household incomes were boosted by the huge pandemic aid packages that were implemented in April 2020, January 2021 and March 2021: The CARES act (link), the Consolidated Appropriations Act (link),*

and the American Rescue Plan Act of 2021 (link), respectively."

When you inject USD 6 trillion (around 25% of US GDP)—as these three packages collectively amounted to—into the economy, it significantly boosts people's incomes. Naturally, they will go out and spend it, as they did. This spending directly contributes to GDP. European governments also injected money into their economies, but the US injected far more.

Looking ahead

And now to today's theme: What about the future? After 15 years of heavy borrowing in the US, one might expect it to level off. But as you will see, that is unlikely to happen.

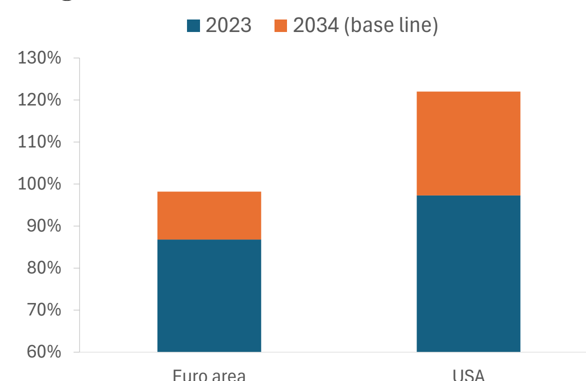
My point: One should at least remember this US excess public borrowing when considering forecasts that predict that US economic activity will grow almost twice as fast as Europe's over the next five years, such as the latest from the IMF (link).

Official projections from the US Congressional Budget Office (link) and the European Commission (link) suggest that the US will continue to accumulate significantly more debt than Europe in the coming years.

Figure 2 illustrates the projected increase in debt burdens for the euro area (the "baseline" scenarios in the Debt Sustainability Monitor; link) and the US up to 2034.

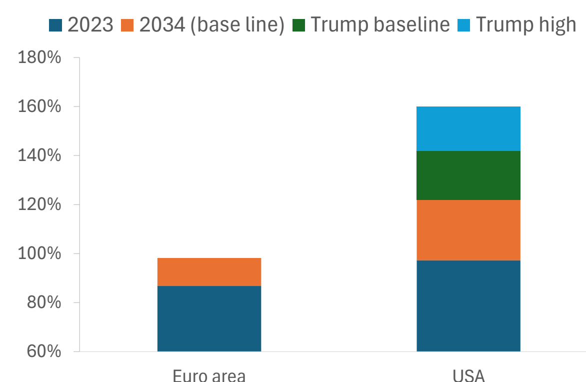
Over the next decade, the debt-to-GDP ratio in the euro area is projected to rise by 11 percentage points, reaching 100% of GDP by 2034. While this represents a significant level of debt, the situation in the US is even more concerning. Public debt in the US is expected to increase by twice as much—by 25 percentage points—over the same period, reaching 122% of GDP by 2034.

Figure 2. *Projected developments from 2023 to 2034 in euro area government debt relative to euro area GDP and US federal debt held by the public relative to US GDP.*
Source: CBO, European Commission, and J. Rangvid.



These debt dynamics are troubling enough on their own. However, when factoring in the additional debt implications of Trump's campaign promises that I discussed in a previous analysis (link), the outlook becomes even more alarming. This is in Figure 3.

Figure 3. *Projected developments from 2023 to 2034 in euro area government debt relative to GDP and US federal debt relative to US GDP, including projections based on Trump's campaign promises.*
Source: CBO, European Commission, and J. Rangvid (link).



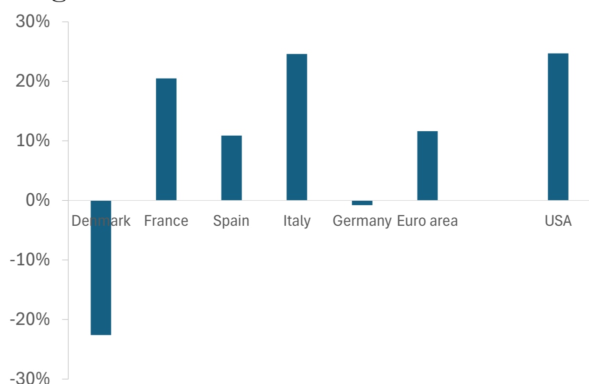
In the worst-case scenario—should Trump implement the policies he promised during his campaign (which remains highly uncertain)—US public debt could soar to 160% of GDP by 2034. This would place the US on par with Italy today, one of Europe's most indebted nations.

Debt trajectories across Europe

Debt dynamics in Europe vary by country. While some European nations are expected to accumulate considerably more debt over the next decade, others are on track to reduce their debt levels. Comparing the projected developments in the US with those of individual European countries, as shown in Figure 4, provides further insight.

Figure 4. Projected developments from 2023 to 2034 in government debt of specific European countries relative to their GDP and US federal debt relative to US GDP.

Source: CBO, European Commission, and J. Rangvid.



The US is projected to accumulate as much additional debt as Italy, far outpacing the projected debt expansions in France, Germany, and Spain. In fact, as mentioned, the US is set to add more than twice as much debt (relative to GDP) as the euro area.

The projections for the US in Figure 4 are based on estimates from the Congressional Budget Office (CBO), i.e. those of Figure 2. If we factor in the potential debt implications of Trump's campaign promises (as outlined in Figure 3), the outlook becomes even more alarming.

Finally, Denmark is included in Figure 4, even though it is not a euro area country. This serves to illustrate that accumulating government debt is not inevitable. It is possible to reduce and even nearly eliminate public debt, provided that the right structures and fiscal balances are in place. Denmark, for instance, is projected to have almost zero public debt by 2034—just 7.7% of GDP. This demonstrates that a thriving economy does not necessarily require excessive borrowing.

Conclusion

Baseline projections suggest that the US will continue to borrow significantly more than Europe in the years ahead. While borrowing and spending can stimulate economic activity in the short term, the money must eventually be repaid.

The US economy enjoys significant structural advantages over Europe, including less burdensome regulation, a more favourable demographic outlook, greater innovation, and more. However, if the US fails to address its mounting debt, it risks severe long-term consequences. Perhaps a more balanced approach—with less debt accumulation and slower growth—would serve the US better in the long run.