Public debt: why is it so difficult to reduce?

Fabio Padovano

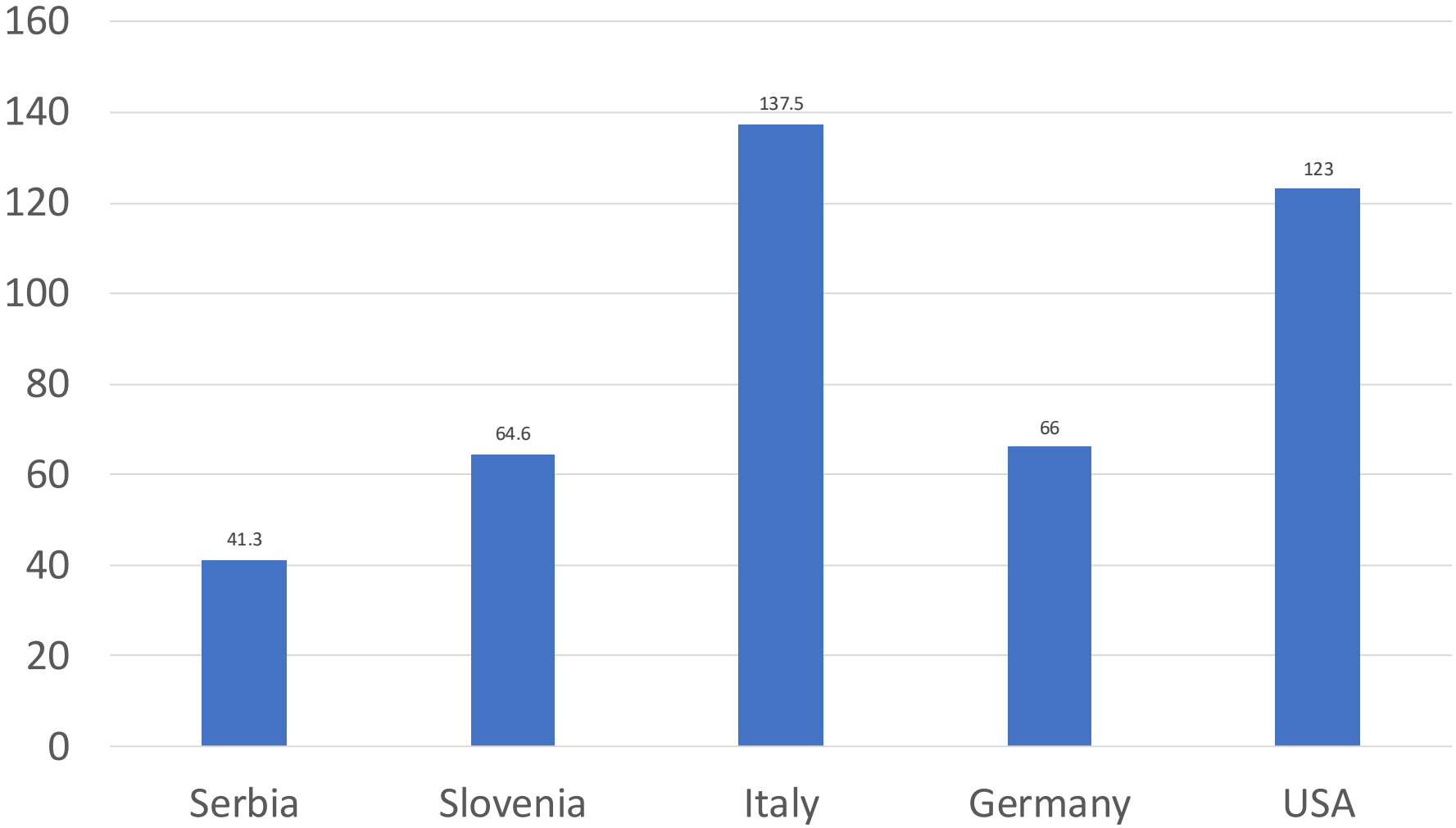
University Roma Tre, Italy

University of Rennes, France

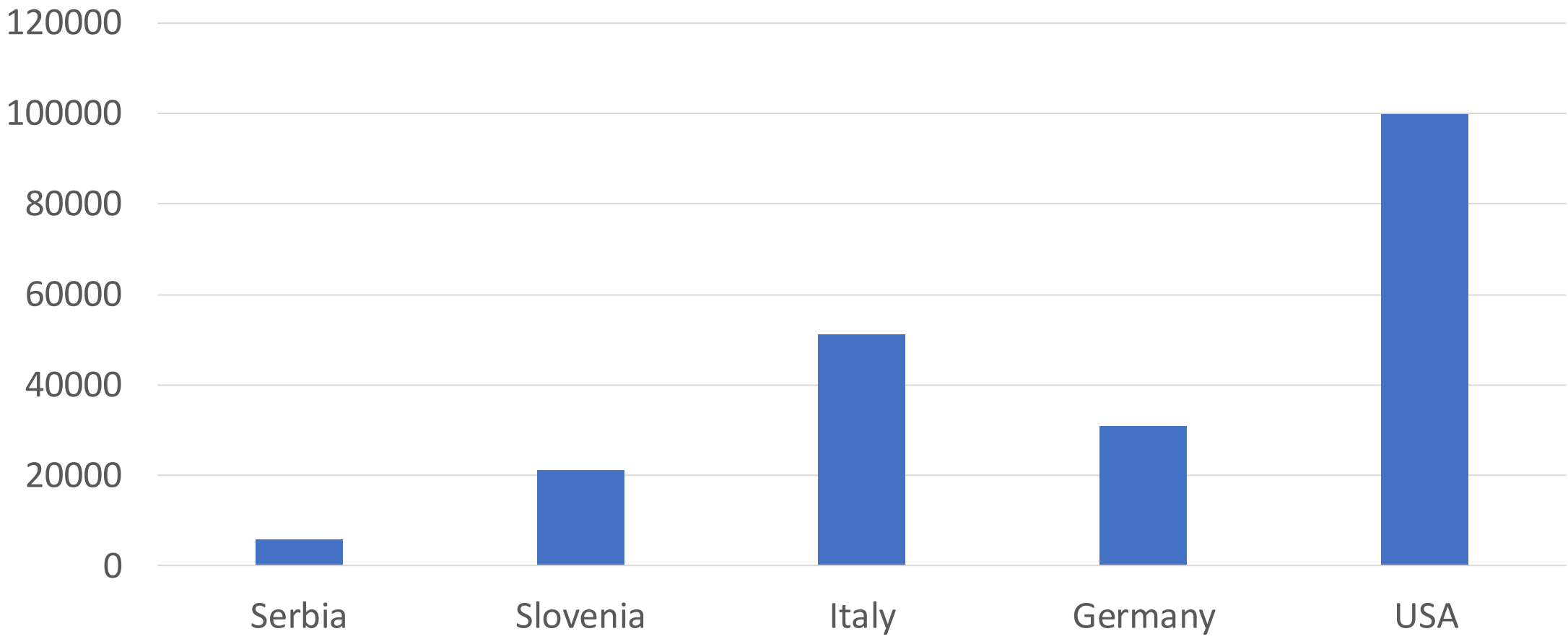
Evolution of debt/GDP ratios over time

Source: OECD data

Debt/GDP ratios – ability to pay (OECD data)



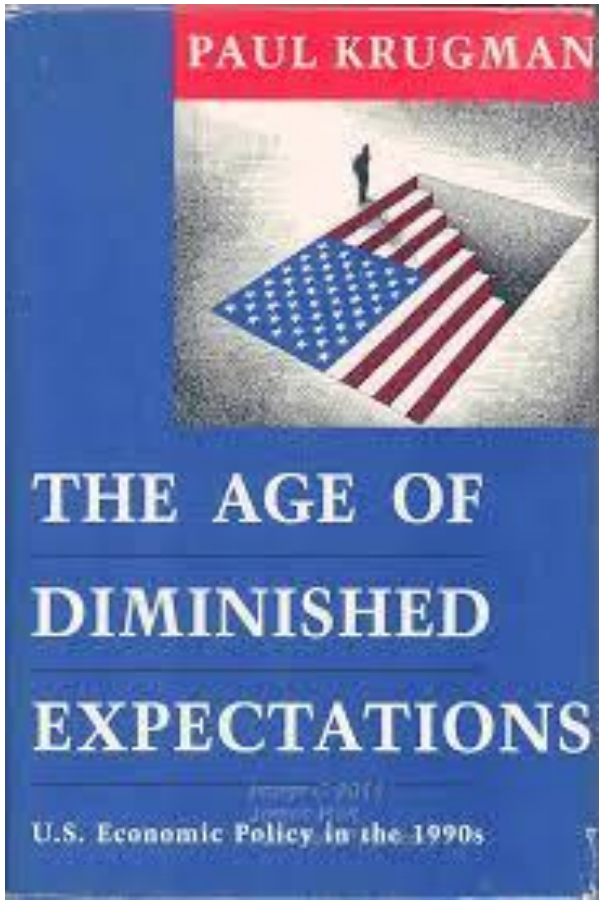
Per capita debt – ability to … repay (OECD data)



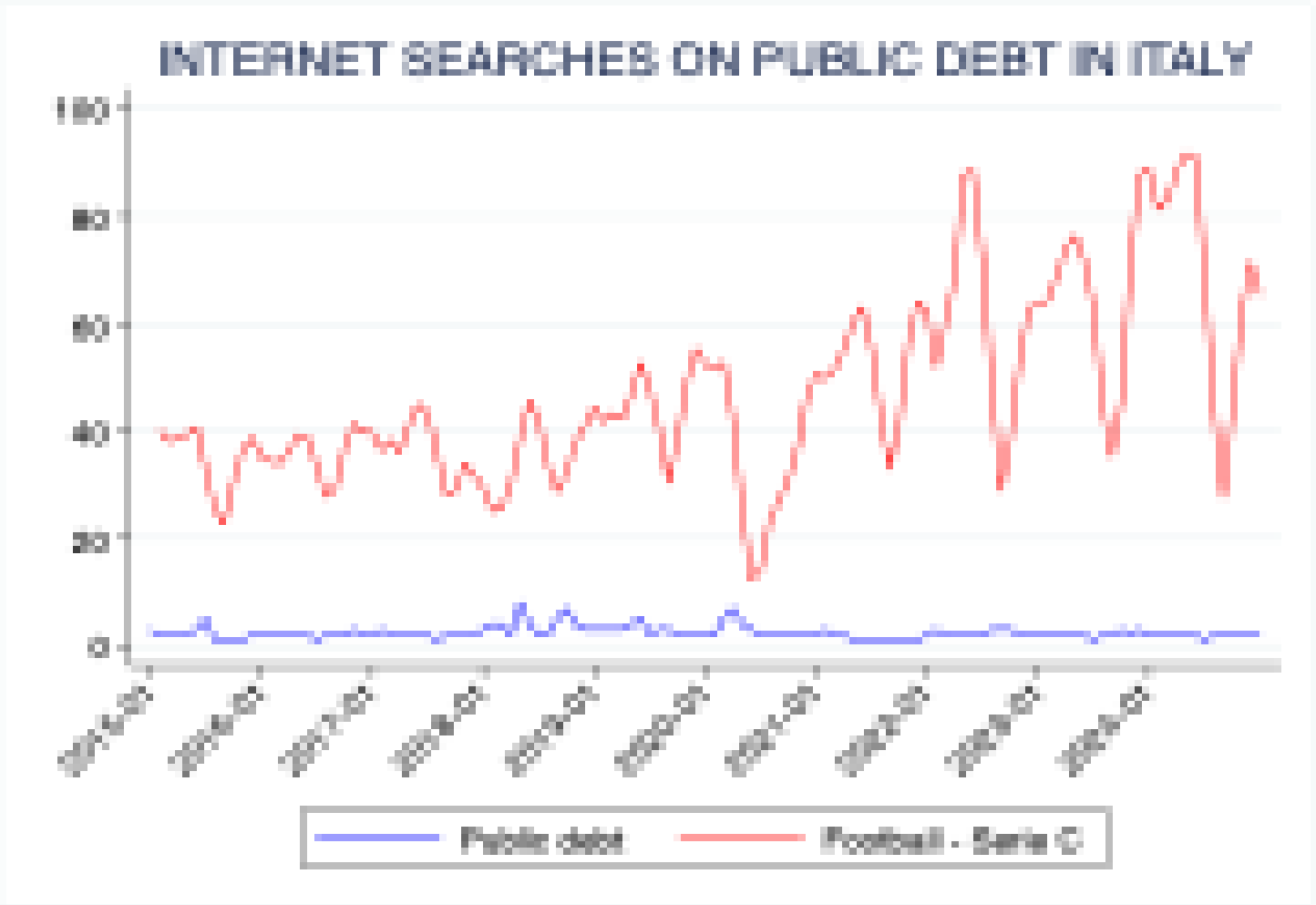
Debt reduction?

- High government debts in several countries, with adverse implications on
  - Economic stability
  - Intergenerational equity
- Ongoing (since forever) policy debate on the strategies to reduce debt-to-GDP ratios
- BUT: Debt reduction strategies need voters' support
- PROBLEM: Citizens' interest for (and concerns about) public debt are limited

Economic stability and intergenerational equity: Kanellos and Krugman



Do people care about public debt?



Source: Google Trends

A recent experimental study

- Based on Bordignon, Gatti, Turati (2026)
- What do citizens know about public debt?
  - Does their information about it matter for their support to debt-reducing fiscal policies?
  - Does anything change when citizens are correctly informed?
- Survey experiment on a representative sample of Italian citizens (2023)
- Basic level of knowledge + information treatment to randomly selected respondents about public debt:
  - Does it affect citizens' concern for debt-related risks?
  - Does it shape expectations and preferences for debt-reducing policies?
    - Which taxes should be increased?
    - Which expenditures should be reduced?

Soiker of the results

- In Italy, a high debt country, the results show that:
  - 1/4 of the Italian citizens do not know that the debt-to-GDP ratio has risen consistently;
  - Correct information raises concerns, but not political support for urgent debt reduction;
  - Informed citizens become more supportive of spending cuts, but not of tax increases;
  - Citizens with biased beliefs do not respond more to the information treatment than people with good information;
- Even correctly informing citizens fails to build support for debt reduction policies

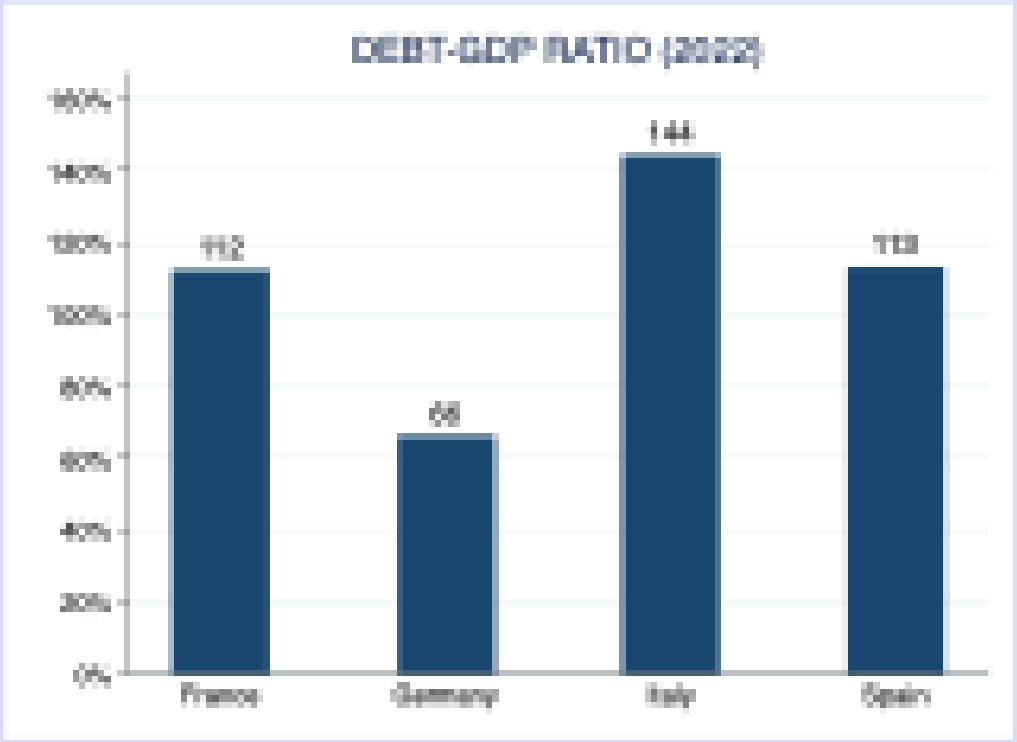
Structure of the test - 1

- Experiment exploits individual-level information from the *IPSOS Knowledge Panel* (a polling institute)
  - Stratified random sample of 1,575 individuals aged 20-69 in Italy;
  - Online (phone) interviews between November 29 and December 14, 2023
- Demographic variables in the dataset include:
  - gender;
  - age (20-29; 30-39; 40-49; 50-59; 60-69);
  - macro-region (North-west; North-east; Centre; South and Islands);
  - size of urban centre (<30,000; 30-250,000; >250,000);
  - educational attainment;
  - labor force status (employed; unemployed; student; retired...);
  - income decile.
- All individuals are weighted using inverse sampling probabilities.

Structure of the test - 2

- Self-assessed and objective knowledge about:
  - public debt, interest rate, government bonds, GDP;
  - evolution over time of debt-to-GDP ratio.
- Experiment: after exposing 50% of the sample to the information treatment:
  - concern about high debt and its potential risks slightly rises;
  - consensus for (gradual) debt reduction slightly rises too;
  - expected vs. recommended debt-reducing policies:
    - tax increases? spending cuts? nothing?
  - ↑income, value added, inheritance, real estate, wealth taxes?
  - ↓pension, health, education, public order, infrastructure spending?

Information treatment - 1



According to the Bank of Italy, the debt-to-GDP ratio amounts to 112% in France, 66% in Germany, 144% in Italy, and 113% in Spain.

(Source: Bank of Italy, 2023)

Information treatment - 2

The Ministry of Economy and Finance reports that Italy's expenditure on debt interest amounts to 76 billion euros in 2023 and 88 billion euros in 2024.

(Source: Ministry of Economy and Finance – 2023)

Information treatment – 3

According to the Bank of Italy, the Italian public debt is held as follows: 37% by resident banks and financial institutions, 25% by the Bank of Italy, 26% by foreign investors, and 12% by Italian citizens.

(Source: Bank of Italy, 2023)

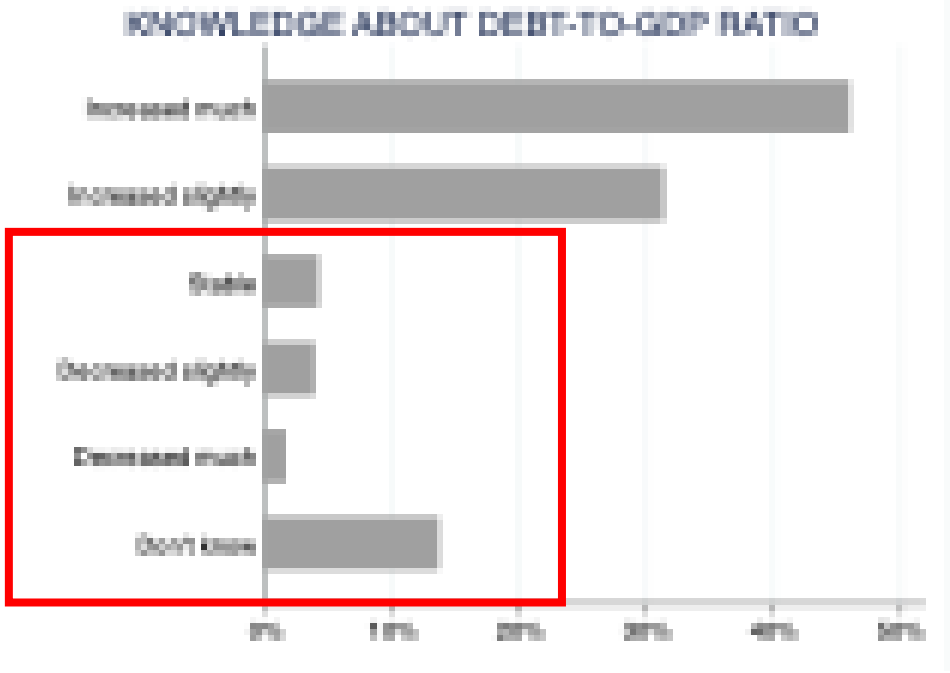
Information treatment - 4

The European Parliament's website reads "Transforming the European Union into a climate-neutral economy by 2050 requires enormous investments in clean energy technologies".

(Source: European Parliament, January 2020)

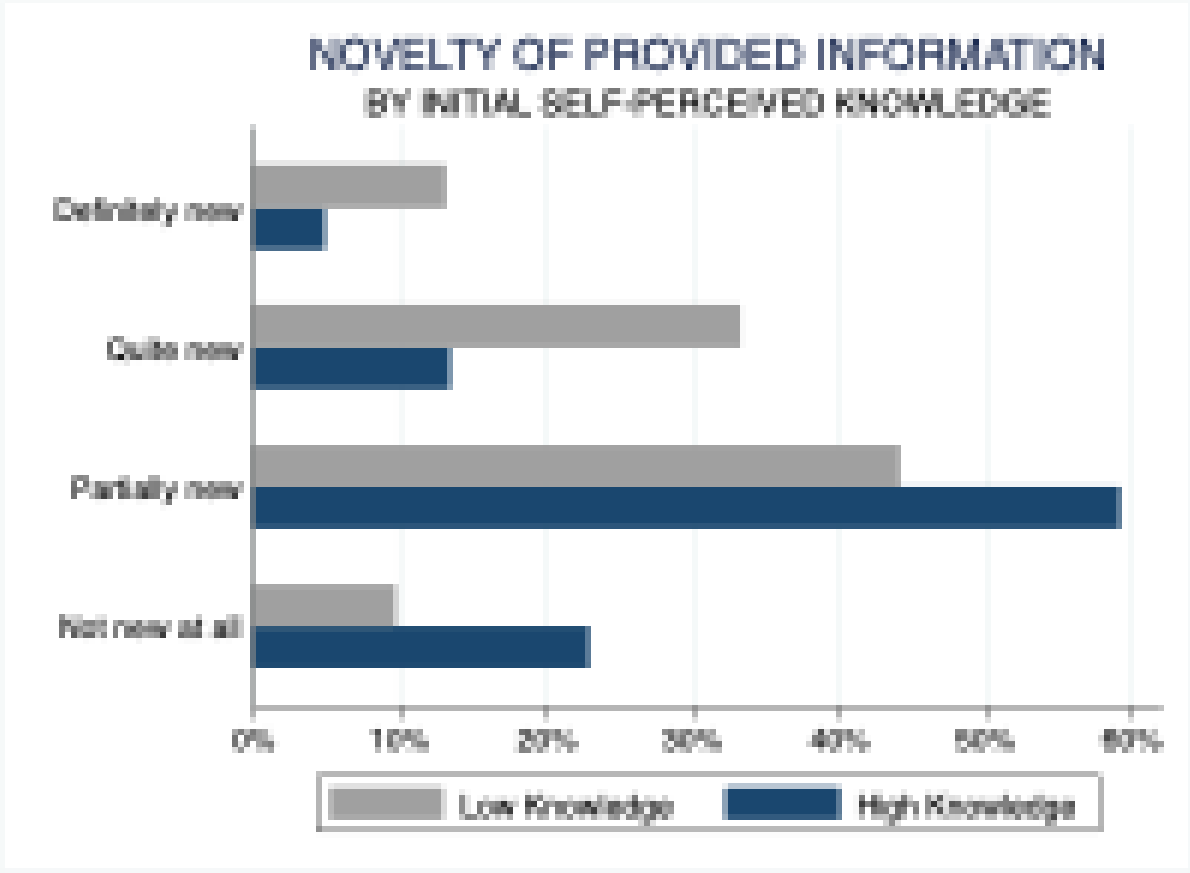
Assessed knowledge (full IPSOS sample)

- We define as individuals with an objective bias those who are not aware of the increasing tendency of the debt-to-GDP ratio over the last 40 years:
  - ≈23% of the overall sample of respondents exhibit this bias

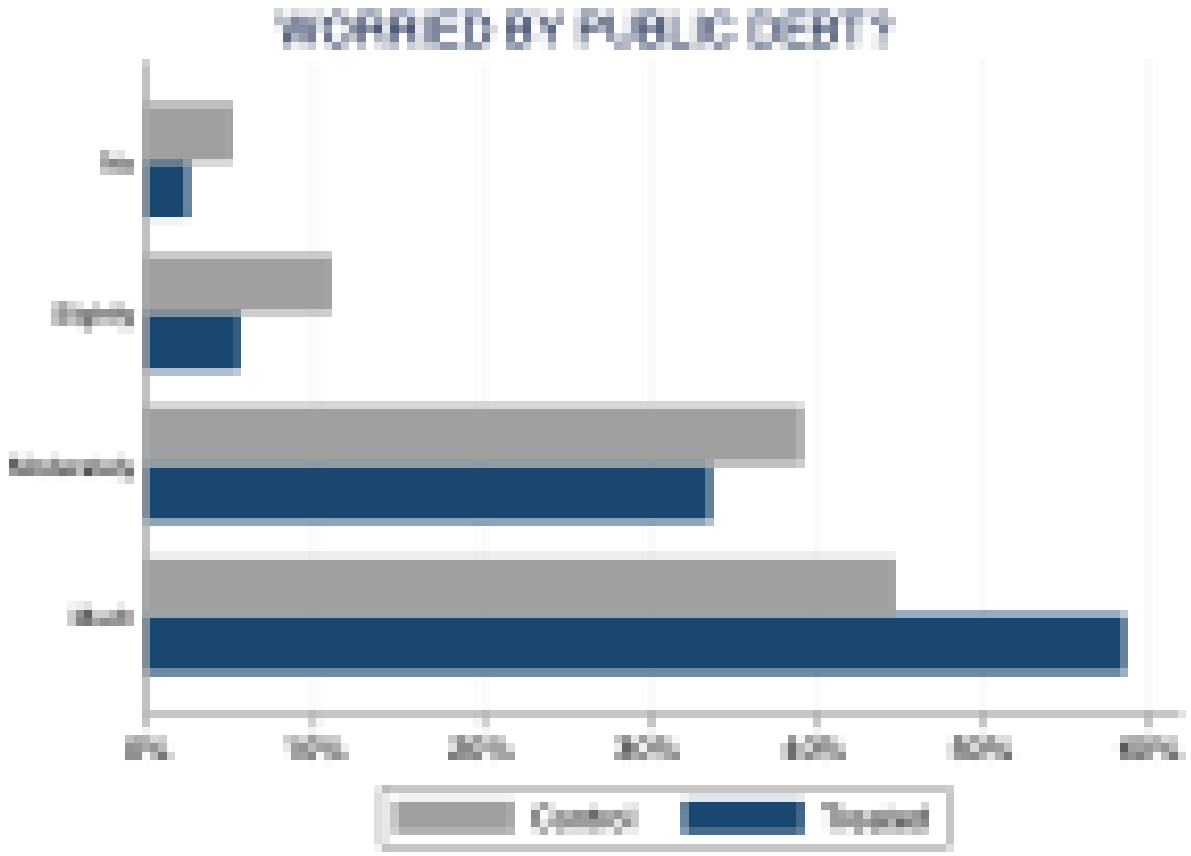


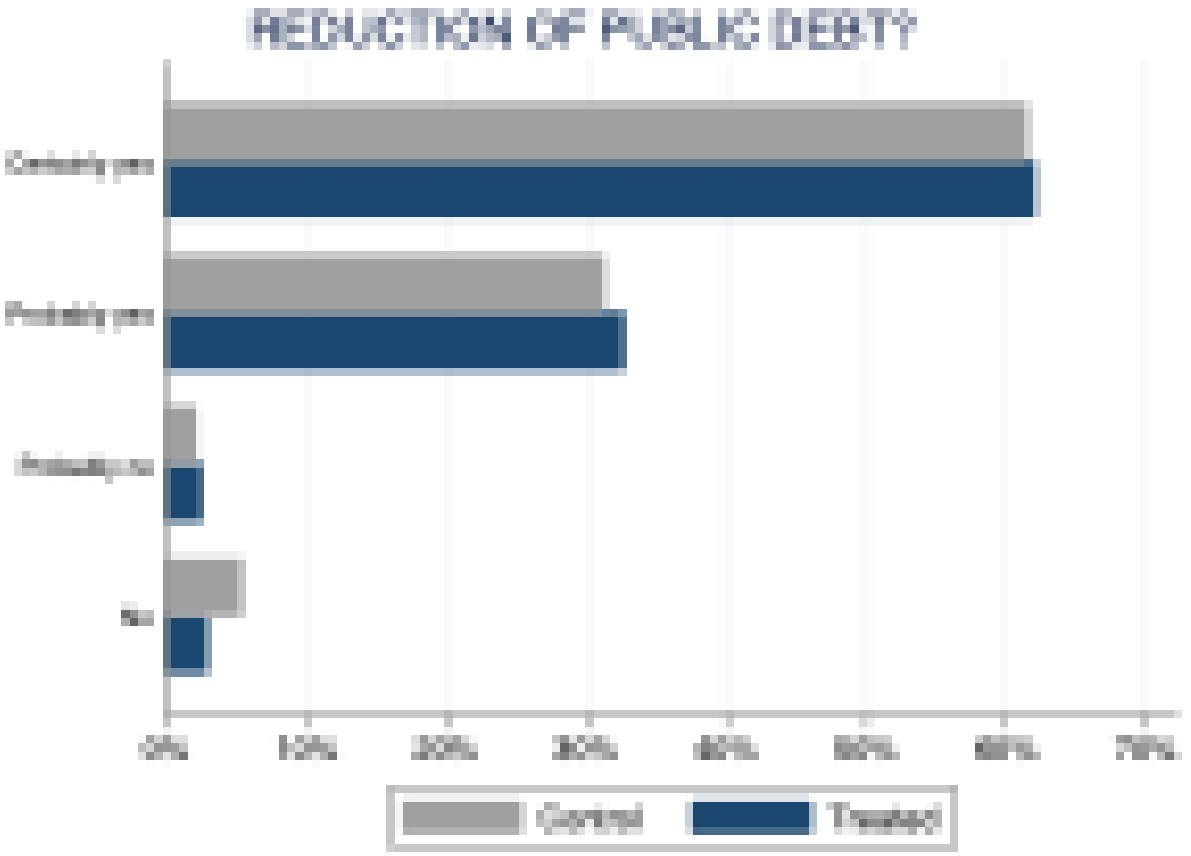
Efficiency of treatment

- The treatment works well → individuals with lower initial knowledge and higher bias are more likely to report that information is new:

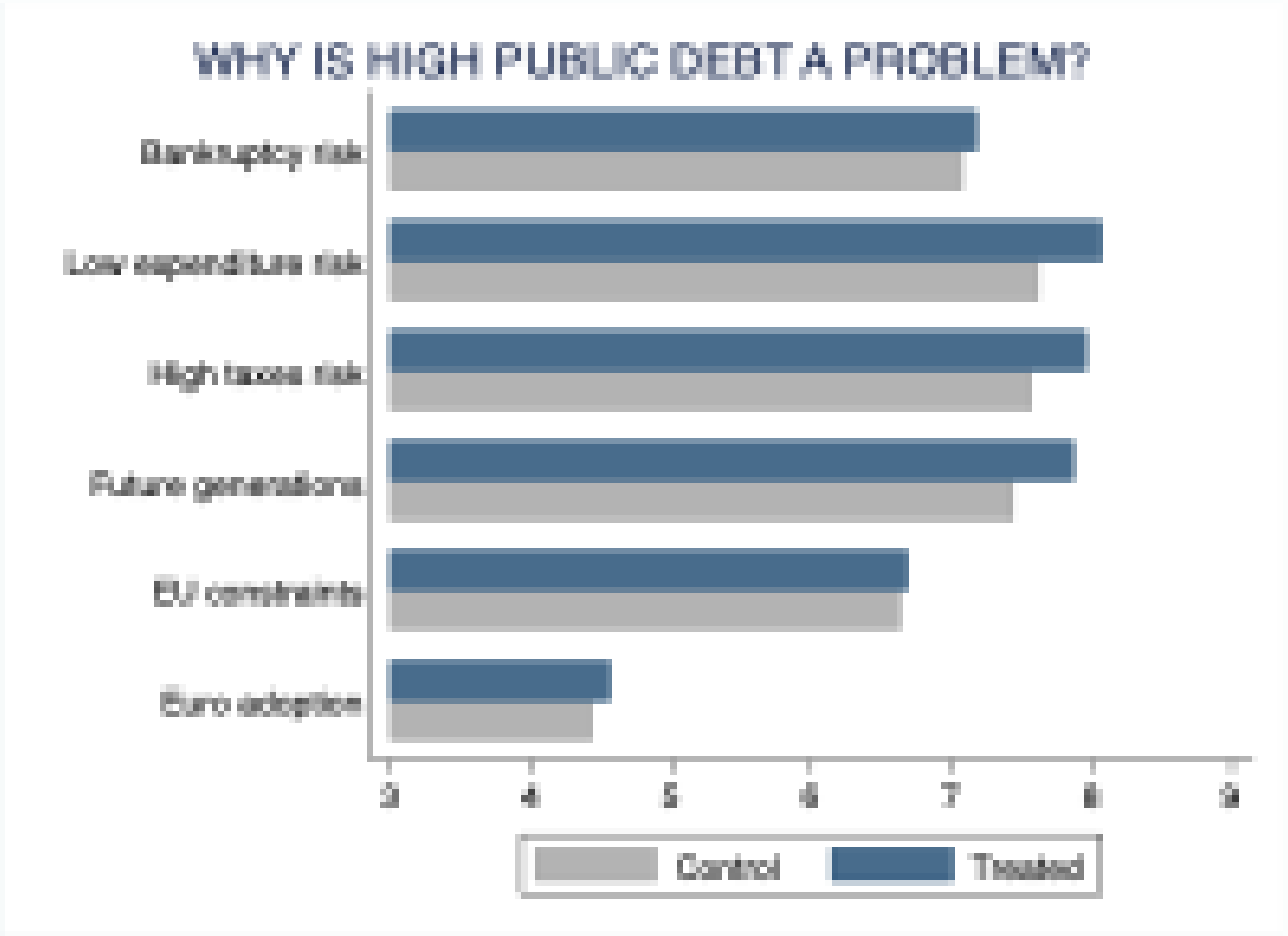


Worried? How about reducing debt?

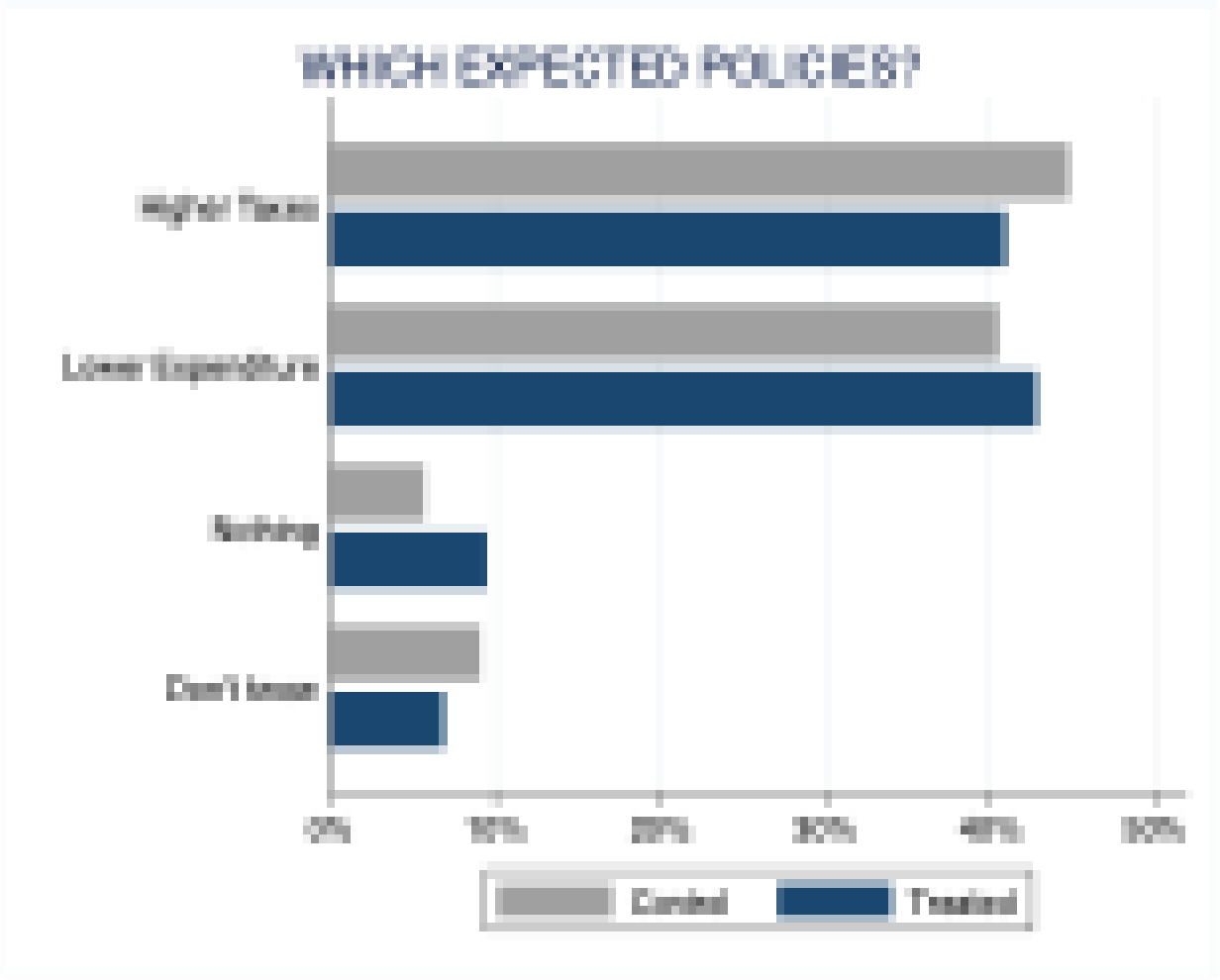


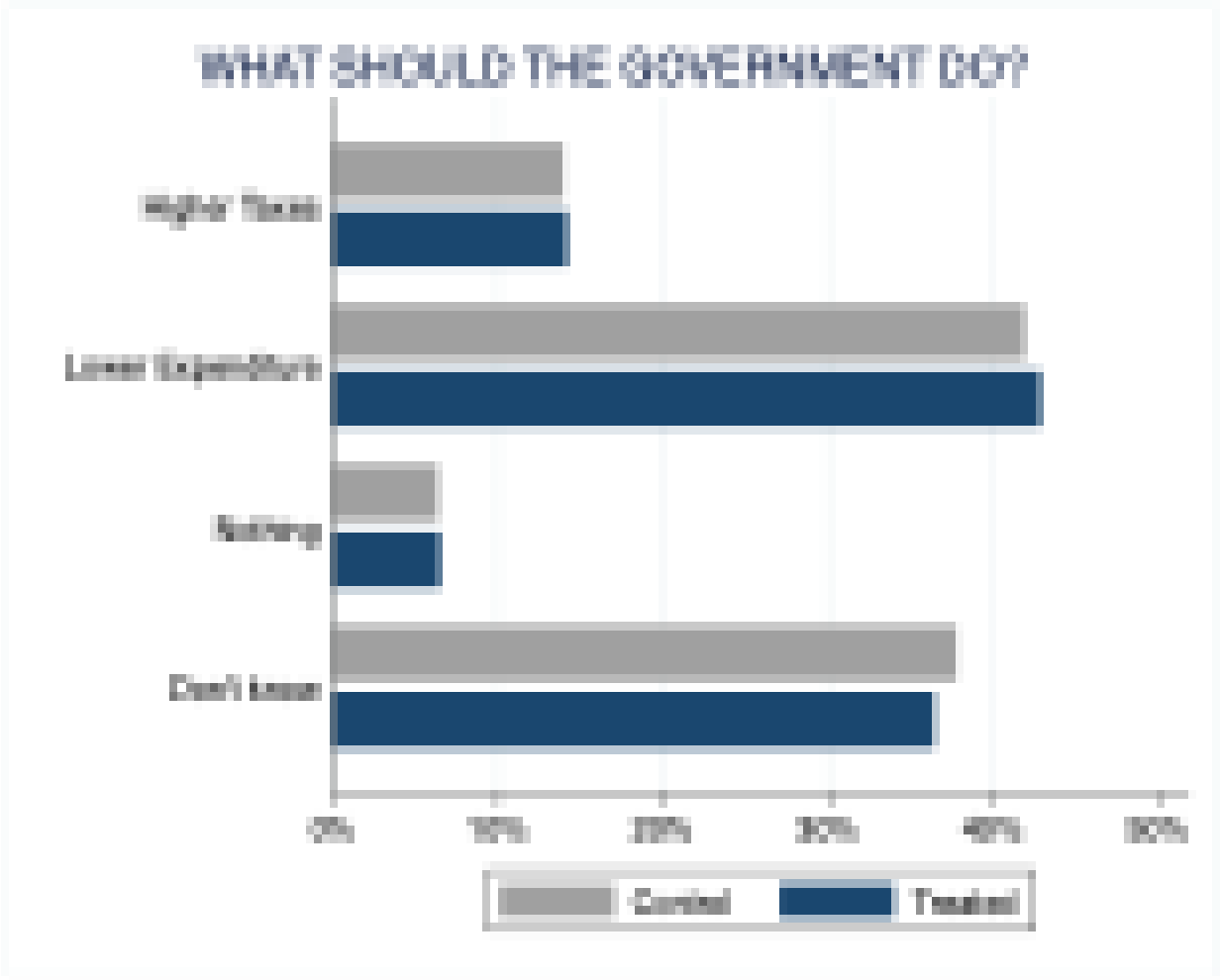


Why is high public debt a problem?

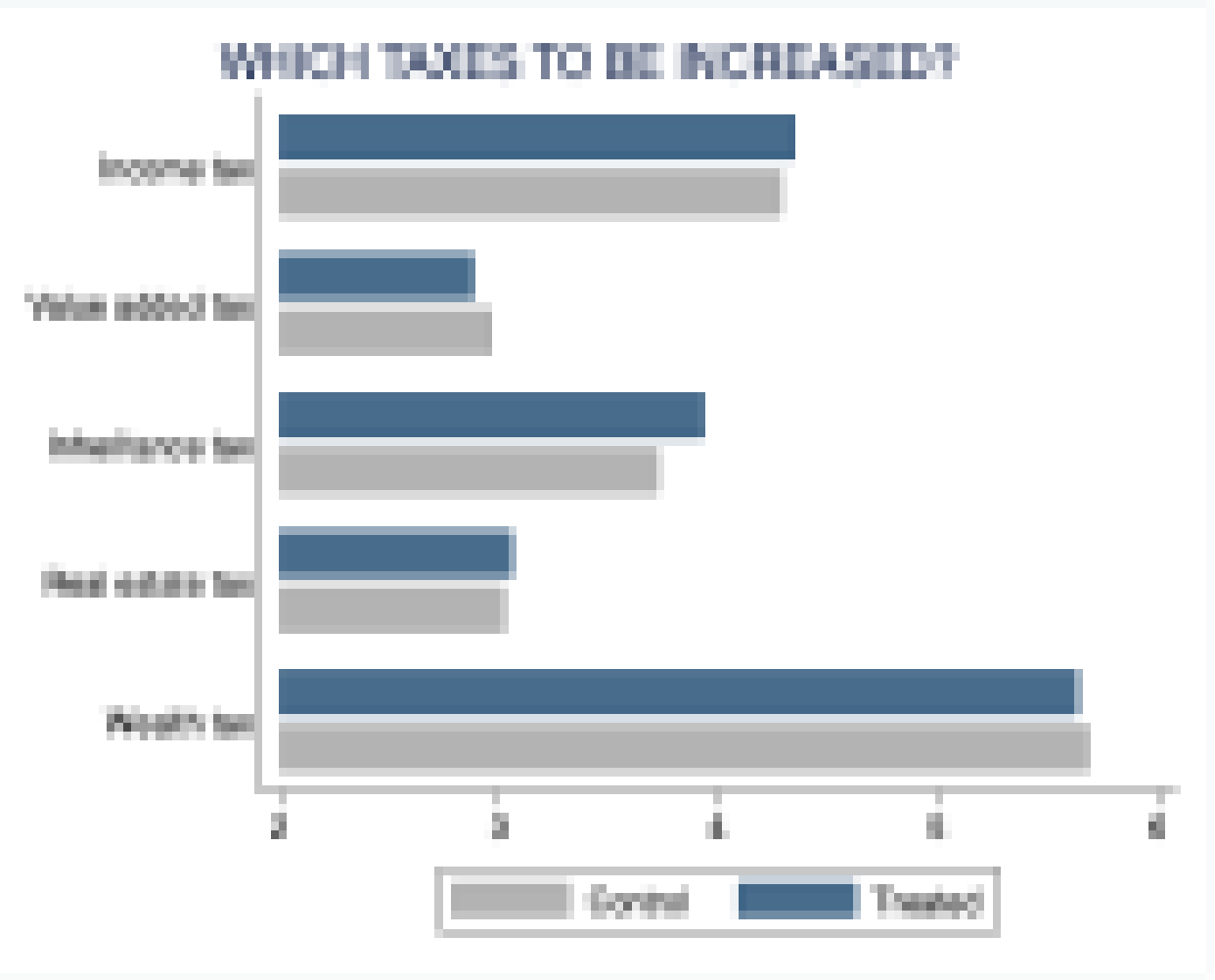


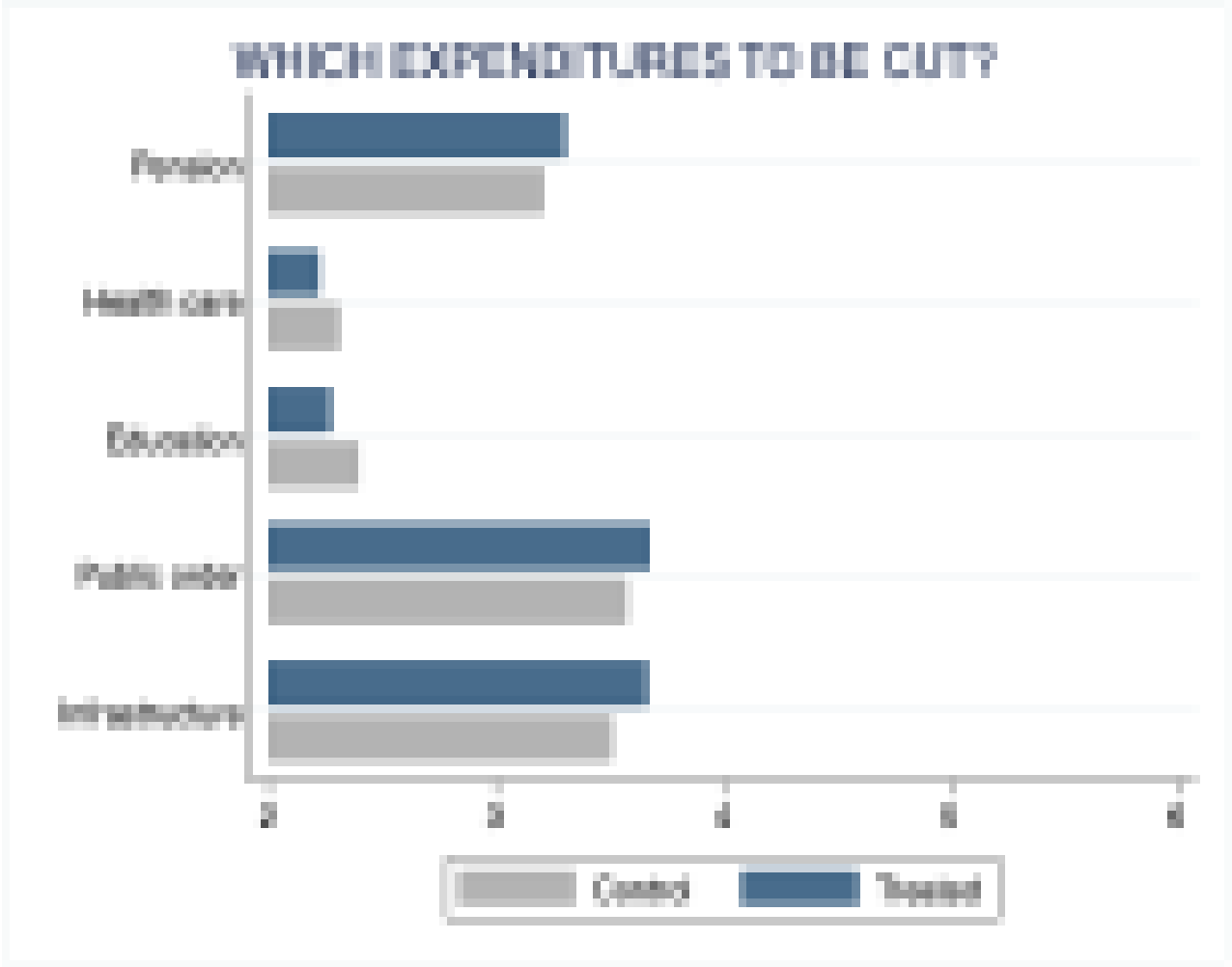
Policy expectations vs preferences





Tax increases and spending cuts





Conclusions - 1

1. On average, Italian citizens have a satisfactory level of knowledge about public debt and, more generally, economic matters
   - EW.g. 80% of respondents provide correct definitions
2. However, almost 25% of respondents hold biased beliefs about the evolution of the debt/GDP ratio:
   - they are umaware of its sizable increase over the last 40 years;
   - → they do not expect and support debt-reducing fiscal policies.
3. Our information treatment makes respondents more concerned, BUT: it does not lead increase the perceived urgency of debt reduction:
   - Fearing higher taxes, male and high-income subjects react more;
   - Biased individuals are not differentially affected

Conclusions - 2

4. Treated respondents do not become more afraid of bankruptcy risks, but:
   - they are more worried about potential tax increases and spending cuts;
   - they express greater concern for future generations.
5. The treatment has no impact on policy expectations:
   - ≈42% of respondents anticipate higher taxes if the debt is not reduced.
6. While there is little consensus for any tax increase, treated individuals become more supportive of spending cuts, but only on infrastructure:
   - likely a “residual” due to low awareness of the size of spending categories.

Conclusions - 3

- Finding political support for debt-reducing policies remains a serious challenge...
- ….if you are a low-debt country (as Serbia), remain one!

….Hvala na pažnji!

…..Thank you for your attention!

….Grazie per la vostra attenzione!