Flash Economics

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Why do all countries have high public deficits?

A large number of OECD countries (United States, United Kingdom, Germany, France, Spain, Italy, Japan) have recently experienced significant public deficits. Why do OECD states struggle to balance their public finances?

Several explanations can be considered:

- Demographic ageing, which increases spending on pensions and healthcare;
- Slowing productivity and, therefore, growth, which creates an incentive to stimulate economies (through higher public spending or tax cuts);
- Recurrent crises (e.g. subprime crisis, eurozone crisis, Covid, war in Ukraine), with crises generating additional public spending that is not withdrawn afterwards.

The emergence of significant public deficits will lead to higher long-term real interest rates, increasing the burden of public and private debt and dampening household and business investment.

Patrick Artus
Senior Economic Advisor
patrick.artus-ext@ossiam.com
@PatrickArtus
Patrick Artus

Isabelle Gravet
Research Assistant
isabelle.gravet-ext@ossiam.com

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High public deficits in all major OECD countries

In the recent period, public deficits are or will be high in all major OECD countries. They are already high in the United States, the United Kingdom, France, Spain, and Italy; they are expected to be high in Germany from 2026 and are also expected to increase in Japan with the stimulus plan of Prime Minister Sanae Takaichi (Charts 1A/B/C).

Chart 1A
Fiscal surplus or deficit (as % of nominal GDP)

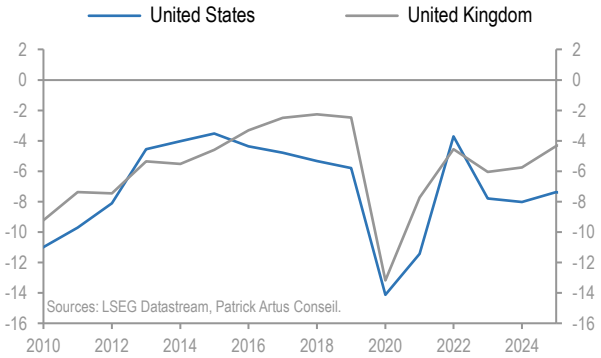


Chart 1B
Fiscal surplus or deficit (as % of nominal GDP)

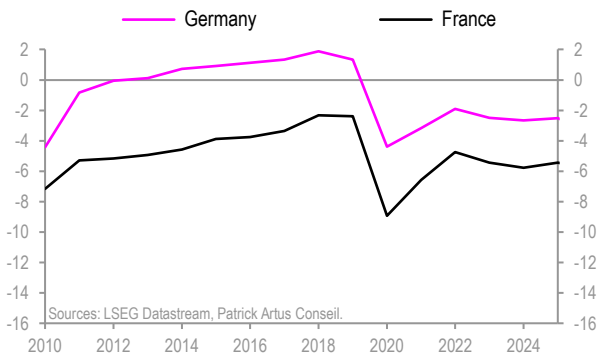
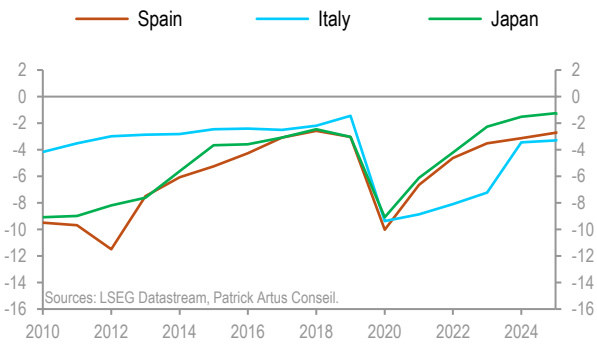


Chart 1C
Fiscal surplus or deficit (as % of nominal GDP)



We are examining the causes of this clear difficulty in controlling public deficits.

First cause: demographic ageing

Demographic ageing is widespread in these countries; it is manifested by a decline in the fertility rate (Charts 2A/B) and an increase in the proportion of people over 65 in the total population (Charts 3A/B).

Chart 2A
Fertility rate (births per woman)

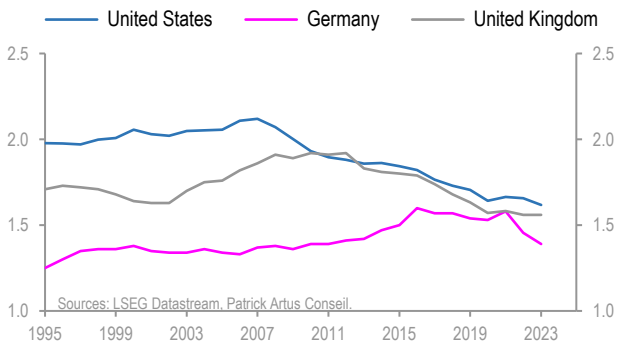


Chart 2B
Fertility rate (births per woman)

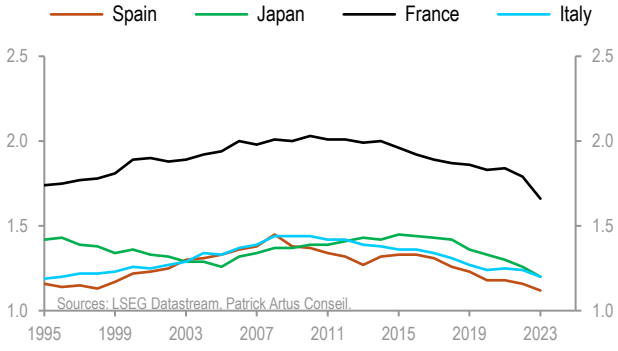


Chart 3A
Population aged 65 and over as a percentage of the population aged 15 to 64

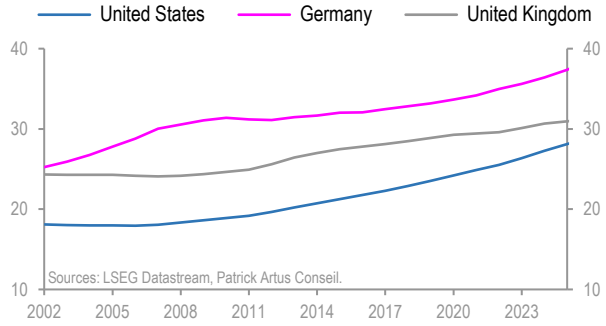
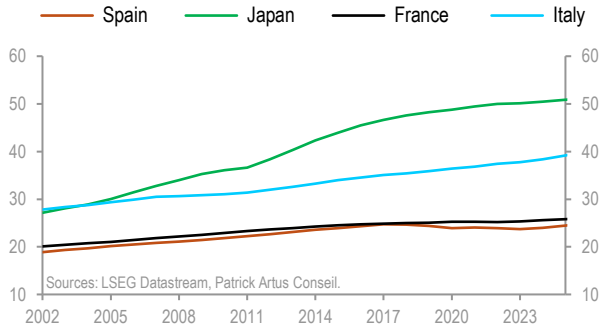


Chart 3B
Population aged 65 and over as a percentage of the population aged 15 to 64



The increasing proportion of retirees in the population mechanically leads to a rise in **pension spending**. Moreover, **healthcare expenditure rises with age from 60 onwards** (**Table 1** shows the example of France).

Table 1: France: Health expenditure by age group (in euros per year)

Age group	Expenditure in euros
0-1	2135
2-16	870
17-59	1802
60-74	4195
75-79	6448
over 80	8355

Source: Sécurité sociale

This explains part of the upward drift in public deficits.

Second cause: Slowdown in productivity gains and GDP growth

Productivity has been slowing in most countries apart from the United States, particularly from the mid-2010s (**Charts 4A/B/C**).

Chart 4A
Real labour productivity per hour worked (2002 = 100)

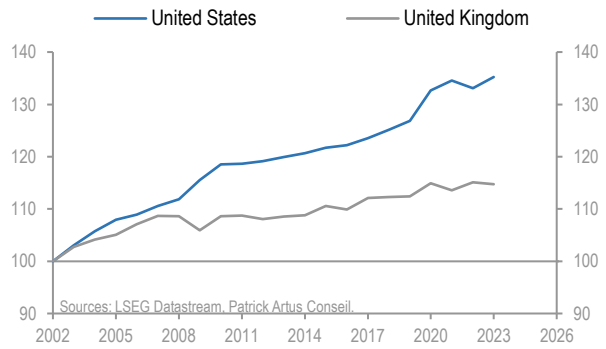


Chart 4B
Real labour productivity per hour worked (2002 = 100)

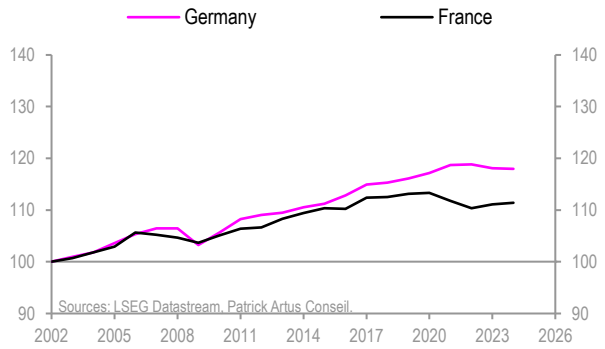
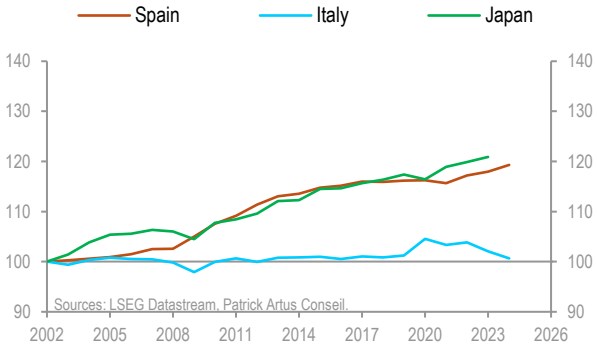


Chart 4C
Real labour productivity per hour worked (2002 = 100)



This creates an **incentive for governments to stimulate growth**, either through tax cuts (United States, France) or increases in public spending (**Charts 5A/B; Charts 6A/B**).

Chart 5A
Public spending (as % of nominal GDP)

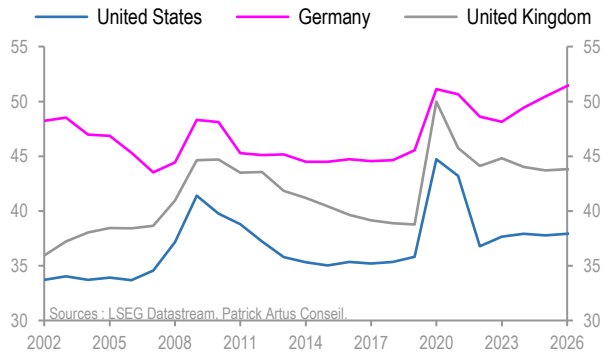


Chart 5B
Public spending (as % of nominal GDP)

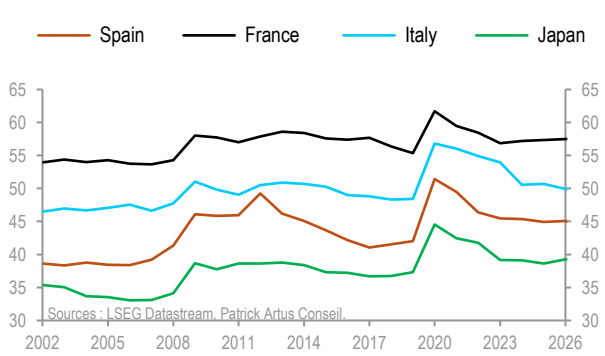


Chart 6A
Tax burden (as % of nominal GDP)

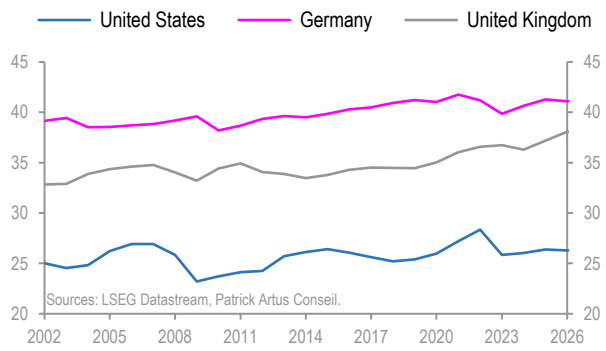
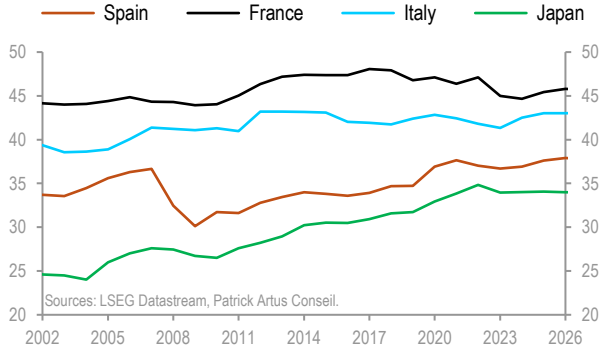


Chart 6B
Tax burden (as % of nominal GDP)



Public spending as a proportion of GDP has increased since 2019 in all major OECD countries.

Third cause: The recurrence of crises

Since the beginning of the 2000s, OECD countries have faced:

- **The subprime crisis** (2008–2009);
- **In Eurozone countries, the Southern European debt crisis** (2010–2012);
- **Covid-19** (2020);
- **The war in Ukraine** (since 2022), accompanied in Europe by rising natural gas prices.

Each crisis led to a contraction in economic activity (**Charts 7A/B/C**) and to measures to stimulate the economy (higher spending, tax cuts). Subsequently, the resulting rise in public deficits has not been fully corrected everywhere (public deficits remain high after these crises in all major OECD countries except Japan).

Chart 7A
Real GDP growth (Y/Y as %)

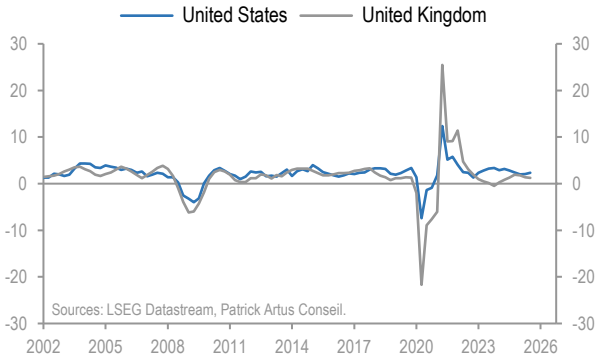


Chart 7B
Real GDP growth (Y/Y as %)

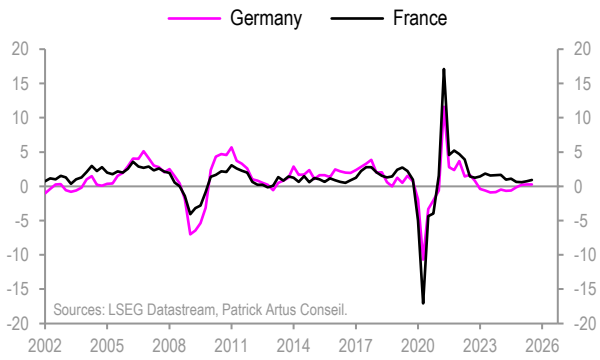
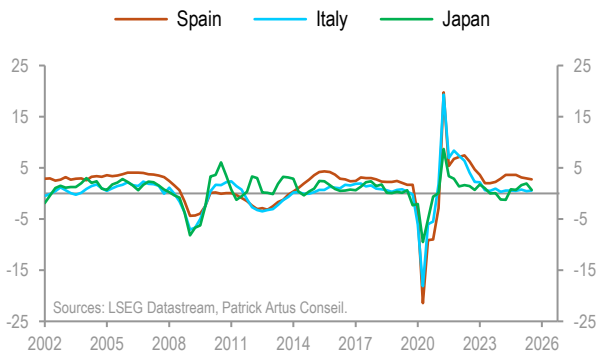


Chart 7C
Real GDP growth (Y/Y as %)



Summary: three causes of high public deficits

We have identified three causes of the emergence of high and persistent public deficits:

- Demographic ageing (in all the countries analysed);
- Slowing productivity, particularly in the United Kingdom, France, Germany, Spain, and Italy;
- Failure to correct crisis-related public deficits (observed in all countries except Japan until 2025).

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