



## Learning to live with debt

by Christian Odendahl and Adam Tooze  
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While the Biden administration is enacting a big fiscal stimulus to boost the recovery, Europe's public debate is starting on when to withdraw economic support and start reducing debt. In their new Centre for European Reform policy brief, '[Learning to live with debt](#)', Christian Odendahl and Adam Tooze argue that Europe's hawkish approach to debt and inflation is outdated.

The authors write that Europe needs a new economic consensus for the post-COVID-19 economy, which recognises the benefits of higher public debt, such as increased public investment and more safe assets for investors, and which is less obsessive about the costs of debt. After all, European states can sustain high debts, and have to play the role of insurer for large risks such as the pandemic. Unlike households, states are long-lived, have a fair amount of control over their own revenues and issue bonds that are attractive to investors because they offer safe stores of value. Low interest rates are most likely here to stay; and faster growth is the best way to stabilise public debt, not austerity.

A new approach on debt should also factor in the European Central Bank as a safety valve, which could be enlisted to help states fund themselves in times of rising interest rates. The authors conclude that the risk of temporarily higher inflation should be seen as part of a cost-benefit analysis, and not something to avoid at all costs. In the aftermath of the Global Financial Crisis of 2008, those in favour of a swift end to fiscal support won the argument, causing widespread economic harm. The authors argue that European policy-makers should act differently this time.

### Notes for editors:

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