

The Interest Burden on Public Debt, or the Myth of the Financial Abyss

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“Soon, interest payments on the public debt will be the State’s largest expense, bigger than the defense / education budget!”

This alarmist refrain, repeated endlessly by ministers and technocrats, has become a classic of public debate. We’re told that debt service is “the dumbest spending there is,” a financial sinkhole draining the future — billions that could otherwise fund schools, hospitals, or the green transition. Yet this tired narrative rests on a deeply flawed argument. Back in 2005, the Pébereau report used the same trick, comparing interest payments to income tax revenues. Seductive as it may sound, the reasoning has no real economic basis.

Let’s look at the numbers. In the budget, the “interest charge” reflects the average rate the State pays to borrow on markets. With debt around €3 trillion and annual interest near €50 billion, the average rate comes to about 1.7%. But here’s the catch: that’s a nominal rate. And any first-year economics student knows nominal rates don’t tell you the true cost of borrowing. What matters is the real rate, once you subtract inflation. And here’s the twist: with inflation expected at 2% in 2024 — exactly the ECB’s target — the real rate turns out to be negative. About -0.3%, in fact. Yes, you read that right: in real terms, the French state actually makes money by borrowing.

At first glance, this might sound like a clever accounting trick. But it isn’t. It reflects a very concrete mechanism economists call the “inflation tax.” It’s a silent, invisible levy that eats away at the value of financial assets — savings accounts, euro-denominated life insurance policies, and other investments — whenever prices rise. Savers see their purchasing power erode, without any law ever being passed or tax collected. As Milton Friedman once put it: “taxation without legislation.” This is hardly a new phenomenon. The late Daniel Cohen, one of France’s most respected macroeconomists, often pointed out that official figures for deficits and debt service were simply wrong. “Every economist on earth knows this correction must be made,” he used to say. “The only people who ignore it are parliamentarians and Brussels. It’s a tragedy.”

And the distortions don't stop there. The "inflation tax" also skews the way we measure household purchasing power. Rising interest rates automatically boost capital income on paper, but the inflationary losses aren't deducted. The result: official statistics [overstate](#) gains in living standards, creating a yawning gap between the numbers and what households actually feel. Once you adjust properly, it turns out purchasing power has indeed fallen in France. As Alfred Sauvy once quipped: "Figures are innocents who confess easily under torture; but precisely for that reason, they quickly retract their confessions."