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Restructuring Private Debt Could Yield Big Impact

Authors Vague and Clemons Discuss Their Research Regarding Private Debt to GDP Ratios with Industry Experts

PHILADELPHIA – Strong economic growth depends on the level of private debt. According to [Richard Vague](#) and [Steve Clemons](#) – who discussed their research at the [Global Interdependence Center](#)'s Feb. 12 event – private debt growth drives gross domestic product (GDP) growth, but rapidly accumulated private debt in excess results in an economic slowdown.

In their paper "[How to Predict the Next Financial Crisis](#)," Vague and Clemons examined the history of the private debt to GDP ratio in the U.S. and argued that while private debt is correlated with the growth of GDP, it has exceeded 150 percent of GDP only twice in U.S. history – in the 1920s, causing the Great Depression, and in the 2000s, causing the Great Recession. The authors expanded their research beyond the US economy and found that across decades, countries and continents – including Japan in the 1990s and Europe today – this 150 percent threshold remains true. Before more than 60 industry leaders and academics at the Federal Reserve Bank of Philadelphia, Vague and Clemons argued that restructuring – or forgiving – private debt, and therefore bringing the private debt to GDP ratio below this threshold, would spur struggling economies more efficiently than public spending.

"A trillion in restructuring is better than a trillion in new stimulus," argued Clemons.

[Anthony Santomero](#), a program discussant, raised several key challenges to the private debt overhang, including how best to determine which loans are restructured, how restructuring debt can affect various groups equitably and the risk of moral hazard. Following Santomero, [Paul McCulley](#), who also served as a discussant at the program, argued that a desire for fairness when considering debt restructuring should be weighed against the larger benefit to society. [Peter Burns](#), board member of GIC, moderated the program.

Vague's on-going research will culminate in his new scholarly paper to be presented at the [Global Society of Fellow](#)'s second annual meeting in Richmond, Va. on April 9, 2013. Vague is the newest Fellow of the Society, which promotes original research on important global issues. The theme of this year's program is "[When Public Investment is No Longer an Oxymoron: Fiscal Policy in Liquidity Trap Conditions](#)."

To learn more about Vague and Clemons' research, view the Feb. 12 [video](#) and [presentation](#), listen to the authors on WHYY's [RadioTimes](#) or visit www.debt-economics.org.

About The Global Interdependence Center (GIC)

The Global Interdependence Center (GIC) is a Philadelphia-based nonprofit organization with a mission to promote free trade and economic and political dialogue between countries to more effectively address common problems and objectives. GIC convenes conferences and roundtable discussions, both domestically and internationally, to identify and address emerging global issues. For more information, visit GIC's website at www.interdependence.org.

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