English Learning for Curious Minds

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Transcript & Key Vocabulary

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Episode #125
Sovereign Debt
19th Jan, 2021

[00:00:00] Hello, hello hello, and welcome to English Learning for Curious Minds, by Leonardo English.

[00:00:12] The show where you can listen to fascinating stories, and learn weird and wonderful things about the world at the same time as improving your English.

[00:00:21] I'm Alastair Budge and today we are going to be talking about debt.

[00:00:28] Debt is a hugely important part of how the world works, from paying for things on a credit card to buying a house, from how businesses grow to how countries manage to pay for things during **devastating**[1] pandemics.

[00:00:43] It is, of course, a **vastly**[2] complicated subject, so we are going to focus on one area in particular.

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[1] causing a lot of damage

[2] greatly

[00:00:51] And that is government debt, the debt that countries take on to pay for things if they need to spend more money than they receive in taxes.

[00:01:02] As you will know, due to COVID-19 most countries have had to pay **vast**[3] amounts of money to support their citizens during the pandemic, and have taken on large amounts of debt to pay for all of this.

[00:01:17] So, in today's episode we are going to talk about what this debt actually is, where it comes from, how does it actually work, and does the fact that many countries continue to spend more money than they receive in taxes actually matter?

[00:01:35] We have a lot ahead of us in today's episode, so let's get started.

[00:01:40] Before we get right into the question of government debt, it's worth discussing briefly what debt actually is.

[00:01:49] Debt is the promise of one **party**[4], a person, a country, a company, an organisation, to pay something, or do something, at some point in the future.

[00:02:01] If you have a credit card and you buy something in a shop, the credit card company is in debt to the shop, and you are in debt to the credit card company.

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[3] very large

[4] one of the people or groups involved in a transaction

[00:02:12] If you buy a house, you normally buy it with a **mortgage**[5] from the bank. The bank **lends**[6] you the money to buy the rest of the house, and you are in debt to the bank until you finish paying off your debt, until you finish paying off your **mortgage**.

[00:02:29] In both of these cases, the money is just created, magically, by the credit card company or the bank, it comes from nowhere, but suddenly there is money in the financial system, debt, that you need to pay.

[00:02:45] And whether it's buying something online and being offered the possibility to pay it later, or in separate **installments**[7], or to **lease**[8] a car over several years, to take a **loan**[9] to pay for university, or to buy a piece of furniture, debt is all around us, and almost everyone has some form of debt.

[00:03:08] But the largest form of debt is the debt that countries take on, which is called **sovereign**[10] debt.

[00:03:16] Countries, just like people, have income, they have money that comes in, and they have expenses, they have things they need to spend money on.

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[5] an agreement that allows you to borrow money from a bank

[6] gives something for a period of time, expecting to be given it back

[7] one of a series of payments

[8] pay money to use something over a period of time, e.g. a car, house

[9] an amount of money that is borrowed and needs to be paid back

[10] relating to a king, queen, or government

[00:03:27] The income comes from taxes, and the expenses go on things like education, hospitals, roads, and all that kind of stuff.

[00:03:36] And, much like for you and me, a country's expenses can't continue to be higher than its income forever.

[00:03:44] It can't always spend more than it brings in, otherwise it runs out of money.

[00:03:50] Or at least that was what people used to think.

[00:03:55] Historically, countries have, of course, gone through periods of spending much more money than they received in taxes.

[00:04:04] During periods of war countries would almost always spend more money than they made.

[00:04:11] Not only does a country not have as much money coming in through taxes, but it also has the costs of fighting the war.

[00:04:20] Countries would manage this by **borrowing**[11] money, by going into debt in order to pay for these extra expenses. They would normally do this by **borrowing** money from private **investors**[12], by selling things called **bonds**[13].

[11] using something that belongs to someone with the agreement that you will give it back later

[12] people who put money into a project in order to gain money

[13] an official document that promises that a government or company will pay back money in the future

[00:04:38] Then, after the war was over, economic growth would start up again, the country would be able to **raise**[14] money through taxes, and pay off these debts, usually over an extended period of time.

[00:04:53] So, historically, government debt, the debt that a country **owes**[15], was something that countries would do in extraordinary **circumstances**[16], in unusual times.

[00:05:05] In the UK, government debt **peaked**[17] during the Napoleonic Wars, and then after the first and second world wars, but was being paid back, and was being reduced almost every year, until the financial crisis of 2007 to 2008.

[00:05:23] And the UK is not alone.

[00:05:26] Many countries have been taking on more and more debt over the past 10 to 15 years, and now have large debt to GDP **ratios**[18] - that's the **ratio**[19] of how much they **owe**[20] to how much economic activity is created in the country each year.

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[14] increase

[15] to need to pay back

[16] the conditions that affect a situation

[17] was at its highest

[18] the relationship between two amounts that shows how large one is compared to the other

[19] the relationship between two amounts that shows how large one is compared to the other

[20] to need to pay back

[00:05:43] After the financial crisis of 2007-2008, after governments had been forced to **borrow**[21] more and more money to rescue their economies and their banks, in much of Europe there was the idea that countries needed to **embark**[22] on periods of **austerity**[23], that they needed to reduce their costs in order to pay down their debts.

[00:06:07] In the UK there were big cuts to public services.

[00:06:11] Budgets were **slashed**[24], they were cut **dramatically**[25], people were **sacked**[26], as the government tried to **balance its books**[27], to reduce the debt that it had taken on to pay to **bail out**[28] the banks after the financial crisis.

[00:06:27] And in Europe, as listeners from countries like Italy, Greece, Portugal and Spain will know all too well, other countries in the Eurozone, mainly to the north of Europe, pressured countries in the South to **undergo**[29] a period of **austerity** to get their debts under control.

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[21] use something that belongs to someone with the agreement that you will give it back later

[22] start out on (usually something difficult)

[23] a period of living without unnecessary things, and usually without comfort

[24] cut

[25] suddenly and greatly

[26] if you are sacked, you lose your job

[27] to show that the amount of money you spend is not more than what you receive

[28] provide money in support of an organisation that is having financial difficulties

[29] start to experience, often something bad

[00:06:47] And then, in 2020, along came COVID-19.

[00:06:52] As we all know, economies were effectively shut down.

[00:06:56] Jobs were lost, businesses went **bankrupt**[30].

[00:06:59] To **varying degrees**[31], countries provided support to people and businesses.

[00:07:05] In many cases, this was done, and is still being done, by the government paying people and businesses directly.

[00:07:14] In the UK there was something called the furlough scheme, where the government would contribute 80% of someone's salary, up to £2,500 a month, if they were unable to work as usual.

[00:07:28] Businesses were given **grants**[32], they were given money by the government to stay **afloat**[33], to stay in business.

[00:07:35] So, where did, and where does all this money come from?

[00:07:41] The government didn't just have a load of money sitting around in its account waiting for the next pandemic, it had to get this money from somewhere.

[30] unable to pay your debts

[31] different amounts

[32] money given by the government

[33] in business, not bankrupt

[00:07:50] And how did it do it?

[00:07:52] By **borrowing** it, by going further into debt.

[00:07:57] Indeed, the UK's public debt is now over 2 trillion pounds, more than its GDP.

[00:08:04]So the UK, or I should perhaps say, the people of the UK **owe** more than the country produces every year.

[00:08:12]As a percentage of GDP, it's not the highest, it's only just over 100%.

[00:08:19] Italy is around 150%, Greece is around 190%, and Japan is around 220%. So, Japan has a debt of 2.2 times its GDP.

[00:08:34] Certainly in the **near term**[34] these numbers aren't going to get any lower, as countries will continue to spend more than they earn to fight the impact of COVID-19.

[00:08:47] If these countries were individuals, if these countries were people, this evidently wouldn't be a situation that would be able to continue for long. The people we **owed**[35] money to would come knocking on our doors and say, 'hey you, I'm here for my money.'

[00:09:03] But countries are not people, and they have several tools **at their disposal**[36] that people don't.

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[34] the near future

[35] needed to pay back (money)

[36] available to them

[00:09:10] To start with, for countries with their own **currencies**[37], with their own money, if the debt is **denominated**[38] in their **currency**[39], they could **theoretically**[40] just pay it off by printing more money, by creating more of it.

[00:09:26] It's the Bank of England that decides when and why to print money, and if it wants to print more money to pay off UK government debt, it can do that.

[00:09:37] The UK government could, in theory, tell the Bank of England, that's the British equivalent of the Federal Reserve, to print £2 trillion tomorrow, pay off all of the debt and the country would be debt free.

[00:09:52] Or it could even go one step further and print £5 trillion, £2 trillion to pay off the debt and £3 trillion to spend on hospitals, schools and roads.

[00:10:05] It might sound like a good idea, but there are some very good reasons why it doesn't happen.

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[37] the money used in a particular country

[38] if a debt is denominated in a currency, it is in that currency

[39] the money used in a particular country

[40] in a way that could be true, but is not proven

[00:10:12] Firstly, adding large amounts of money to the money supply is a **surefire**[41] way to increase **inflation**[42] if it isn't followed by a similarly large increase in economic activity.

[00:10:25] It might work in the short term, but if people can't trust that their money won't decrease in value, they will lose trust in the system.

[00:10:34]Weimar Germany learned this lesson the hard way.

[00:10:38] Secondly, countries can **borrow** money at such low costs that it doesn't really matter if they **owe** large amounts of it.

[00:10:47] If you or I want to take on debt, depending on what we want to buy, we are offered different **interest rates**[43] by the bank, based on how likely the bank thinks it is that they will get their money back.

[00:11:01] If we buy a house, the **interest rate**[44] will be lower, we will have to pay less, because the bank can come and take your house if you stop paying it back. You can't run away with a house because, well, it's a house.

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[41] certain

[42] an increase in prices

[43] the percentage you need to pay to borrow money

[44] the percentage you need to pay to borrow money

[00:11:16] But if you want a **loan** to buy a new TV or to go on holiday, well you'll be offered a higher **rate**[45] because the bank can't easily come and take those things back.

[00:11:27] When it comes to countries, as they don't tend to go **bankrupt**, and they can't run away, they can normally get very low **interest rates**, so the cost of actually going into debt for them is very low.

[00:11:43] Countries can also relatively easily reduce their debts by either increasing their **revenues**[46], through things like increasing taxes, or cutting their costs, by reducing **budgets**[47].

[00:11:56] Naturally, they can't do this forever, but it's far easier for a country to say "right, citizens, we need another billion pounds a year so we're raising taxes by 1% percent" than you or I saying to our boss "Right, I need you to give me a pay rise because I can't pay my bills".

[00:12:16] And finally, countries can grow their way out of debt, they can grow economically, which leads to more tax **revenues**, and they can repay their debts, if they so choose.

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[45] short for "interest rate" (the percentage you need to pay to borrow money)

[46] the money a person, company or country receives

[47] the amount of money to be spent

[00:12:29] So, that's a brief **outline**[48] of the situation, of how countries take on debt, why they do it, how much of it there actually is around, and why they don't just pay it off.

[00:12:42] But the most interesting question to ask ourselves next is "after the huge increase in national debt due to COVID-19, what happens next?"

[00:12:54] The Napoleonic Wars, when Britain was at war with France, was a time that Britain's national debt grew hugely, and indeed as a percentage of GDP it was almost twice as much as it is now.

[00:13:11] When the war ended the government raised taxes slightly, and cut spending, but it took almost 100 years for the debt to return to its previous level.

[00:13:23] What about now?

[00:13:24] Do we in the UK, or anywhere else in the world for that matter, do we need to do the same thing? Who pays, if anyone actually needs to pay, for the cost of government debt taken on during COVID-19?

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[48] summary

[00:13:40] Raising taxes is never a politically popular decision, and even if that were the only way to repay the debts, there are few politicians who would want to **stick their necks out**[49] and **campaign**[50] for higher taxes.

[00:13:56] Cutting government spending is, of course, a possibility, but that's neither a politically popular decision nor always the economist's **preferred**[51] choice.

[00:14:07] So, if tax receipts don't go up, and government spending doesn't go down, what happens to this huge pile of debt?

[00:14:17] Governments have to pay **interest**[52] on it every year, and even though this might be small in percentage terms, it's still large in terms of dollar, pound or Euro amounts.

[00:14:31] There are some arguments to just forgive these debts, to **wipe them out**[53], but that would never really apply to wealthy countries like the UK or the US.

[00:14:42] And even for countries that don't have the resources to pay back their debts, just canceling the debt would be a big sign to potential future **lenders**[54], to people who

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[49] if you stick your neck out, you put yourself forward for something, even if it might have negative consequences

[50] to take a series of actions in order to achieve a political result

[51] favourite

[52] the amount of money you pay to borrow money

[53] get rid of them

[54] people who loan money

might **lend**[55] money to the country in the future, that they might not get their money back, which would lead to higher **borrowing** costs **down the line**[56], it would make the debt more expensive in the future.

[00:15:07] The other question relates to the people that own the debt.

[00:15:11] If I **owe** you €100, then you probably would want me to pay you back because, well, it's €100 and if it's yours you would rather have it than allow me to keep it.

[00:15:24] But if I **owe** you a billion euros, and of course here I am a country and you are another country or a financial institution, then you might not really want me to pay you back.

[00:15:38] You are quite happy with me paying you a bit of interest, and you know that that debt is worth something, you are quite happy for me just to have it, for it to be safe with me.

[00:15:50] If I paid it all back to you, you would have to find something else to do with that money.

[00:15:57] Now, you might be thinking 'well, I'm sure anyone would be happy to be repaid their billion dollars', but it's not that simple.

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[55] to give money for a short period of time

[56] in the future

[00:16:06] People like buying government debt, they like buying **bonds**, because it is safe, and in most cases they aren't buying it because they want to be paid back immediately, they are buying it as a long term investment.

[00:16:18] So, countries are going more and more into debt, to themselves, to their citizens, and to each other, and there isn't much sign that this is ever going to end.

[00:16:32] But, does this matter?

[00:16:35] When you see statistics like "every man, woman and child in the US has a national debt of $80,000", or you see that countries are spending billions fighting COVID-19, or when you see news headlines around the huge cost of **ambitious**[57] projects, rebuilding **infrastructure**[58] or investing in green technologies, should this mean that you lose any sleep over it?

[00:17:01] Well, not really.

[00:17:03] For as long as there are people who want to **lend** countries money, they will continue to **borrow** it.

[00:17:09] Theresa May, the ex British Prime Minister, when she was asked about why nurses couldn't get a pay rise, once famously said "There is no magic money tree".

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[57] an ambitious idea is one that is difficult but brave

[58] the basic systems and services that a country or organisation needs

[00:17:21] She meant that the UK government can't just create money out of nothing, that there isn't just an unlimited amount of money that can be used to pay for stuff.

[00:17:32] This was back in 2017, when the UK government debt was considerably lower than it is now.

[00:17:40] Well, it turns out that her **successors**[59] have discovered a magic money tree, and it is called government debt.

[00:17:48] They have certainly shaken it down very well, **to the tune of**[60] over two hundred billion dollars. And only time will tell what the consequences of doing so will be, and when, if ever, they plan to pay it back.

[00:18:05] OK then, that is it for today's episode on Debt.

[00:18:09] I hope it's been an interesting one, and that you've learnt something new.

[00:18:13] As always, I would love to know what you thought of this episode.

[00:18:17] It's a topic that affects every country in the world, and I would love to know what people in your country are thinking about how it affects them.

[00:18:26] You can head right in to our community forum, which is at community.leonardoenglish.com and get chatting away to other curious minds.

[59] people who come after someone else

[60] (informal) used to emphasise a large number

[00:18:35] You've been listening to English Learning for Curious Minds, by Leonardo English

[00:18:40] I'm Alastair Budge, you stay safe, and I'll catch you in the next episode.

[END OF EPISODE]

Key vocabulary

Word	Definition
Devastating	causing a lot of damage
Vastly	greatly
Vast	very large
Party	one of the people or groups involved in a transaction
Mortgage	an agreement that allows you to borrow money from a bank
Lends	gives something for a period of time, expecting to be given it back
Installments	one of a series of payments
Lease	pay money to use something over a period of time, e.g. a car, house
Loan	an amount of money that is borrowed and needs to be paid back
Sovereign	relating to a king, queen, or government
Borrowing	using something that belongs to someone with the agreement that you will give it back later
Investors	people who put money into a project in order to gain money

Bonds	an official document that promises that a government or company will pay back money in the future
Raise	increase
Owes	to need to pay back
Circumstances	the conditions that affect a situation
Peaked	was at its highest
Ratios	the relationship between two amounts that shows how large one is compared to the other
Ratio	the relationship between two amounts that shows how large one is compared to the other
Owe	to need to pay back
Borrow	use something that belongs to someone with the agreement that you will give it back later
Embark	start out on (usually something difficult)
Austerity	a period of living without unnecessary things, and usually without comfort
Slashed	cut
Dramatically	suddenly and greatly

Sacked	if you are sacked, you lose your job
Balance its books	to show that the amount of money you spend is not more than what you receive
Bail out	provide money in support of an organisation that is having financial difficulties
Undergo	start to experience, often something bad
Bankrupt	unable to pay your debts
Varying degrees	different amounts
Grants	money given by the government
Afloat	in business, not bankrupt
Near term	the near future
Owed	needed to pay back (money)
At their disposal	available to them
Currencies	the money used in a particular country
Denominated	if a debt is denominated in a currency, it is in that currency
Currency	the money used in a particular country

Theoretically	in a way that could be true, but is not proven
Surefire	certain
Inflation	an increase in prices
Interest rates	the percentage you need to pay to borrow money
Interest rate	the percentage you need to pay to borrow money
Rate	short for "interest rate" (the percentage you need to pay to borrow money)
Revenues	the money a person, company or country receives
Budgets	the amount of money to be spent
Outline	summary
Stick their necks out	if you stick your neck out, you put yourself forward for something, even if it might have negative consequences
Campaign	to take a series of actions in order to achieve a political result
Preferred	favourite
Interest	the amount of money you pay to borrow money
Wipe them out	get rid of them
Lenders	people who loan money

Lend	to give money for a short period of time
Down the line	in the future
Ambitious	an ambitious idea is one that is difficult but brave
Infrastructure	the basic systems and services that a country or organisation needs
Successors	people who come after someone else
To the tune of	(informal) used to emphasise a large number

We'd love to get your feedback on this podcast.

What did you like? What could we do better?

What did you struggle to understand?

Let us know in the forum community.leonardoenglish.com