# Public Debt under Excusable Default: Why do Governments Borrow so Much?

Fabrice Collard[1], Michel Habib[*2], and Jean-Charles Rochet[3]

[1]University of Bern – Switzerland
[2]University of Zürich, SFI, CEPR – Switzerland
[3]University of Zurich, Toulouse School of Economics, SFI – Switzerland

**Abstract**

The present paper computes the debt-to-GDP ratio chosen by a self-interested government that engages in 'excusable' default. The government maximizes the utility of its own consumption over a period of time that is the government's expected stay in office, which the government fearing loss of office upon default seeks to extend to the fullest by defaulting only 'excusably' when unable to muster the funds necessary for debt service. The chosen debt ratio appears to be much closer to prevailing ratios than that chosen under the alternative assumption of an altruistic government engaging in strategic default: our baseline case has debt-to-GDP ratio 82% under excusable default, far above the 2.7% under strategic default.

**Keywords:** theory

[*]Speaker