

# Debt: The Driving Force of the Global Economy, and Private Equity's Habit-Driven Value Extraction

## Debt as the Main Stage in the Global Economy

Modern economic growth has become deeply **debt-driven**. Global debt across all sectors reached an unprecedented **\$313 trillion in 2023**, up from about \$210 trillion a decade earlier <sup>1</sup>. In other words, total world debt now stands at roughly **330% of global GDP** <sup>2</sup> – more than three times the world's annual economic output. This massive debt pile isn't just a background number; many analysts argue it is **center stage in the economy**, fundamentally driving growth and financial activity. In fact, **debt (credit) growth has often outpaced and propelled economic growth**, suggesting that credit expansion *itself* was a primary engine of global GDP growth <sup>3</sup>. As one economist observed, for decades **"credit growth has been the driver of economic growth"** in an era where easy credit replaced the old reliance on savings <sup>4</sup> <sup>3</sup>.

**Heterodox economists** and market observers offer a perspective that diverges from traditional textbooks: they contend that the global economy now operates on a system of **"Creditism" rather than classic capitalism** <sup>5</sup>. In this view, since the end of the gold standard, economic expansion has been sustained by ever-expanding credit and debt, rather than by investment funded from saved capital. Creditism, as author Richard Duncan describes, *"requires Credit growth to survive"* <sup>5</sup>. If credit (and thus debt) stops growing, demand falters and growth stalls. This helps explain why periods of **slack credit growth correlate with economic stagnation**, as seen in Japan's long "lost decade" after 1990 and in the sluggish recovery after the 2008 financial crisis <sup>6</sup> <sup>7</sup>. Conversely, rapid debt expansion tends to stimulate strong growth – albeit often unsustainably. It's a cynical simplification, but the *implication* of this view is that **"if you want the global economy to grow, just increase its debt."** New debt injects purchasing power into the economy, fueling consumption and investment. Of course, this can lead to bubbles or future crises, but in the short run it boosts economic activity.

The centrality of debt is also evident in the vast financial superstructure built upon it. Governments, households, and firms worldwide must service that \$300+ trillion in debt, generating enormous flows of **interest payments** that have become a significant economic factor of their own. For example, in advanced economies, government interest expenses now average **3.3% of GDP – exceeding what these countries spend on their defense budgets** <sup>8</sup>. Entire industries in finance are devoted to issuing, packaging, and trading debt or guarding against its risks. The global market for financial **derivatives** (much of it tied to interest rates and debt instruments) had a notional value of roughly **\$730 trillion in mid-2024** <sup>9</sup>, a staggering figure that illustrates how debt is indeed the "main stage" – the foundation for a huge volume of financial activity. In short, **debt is not a sideshow in economics; it is a main actor**. The world economy's expansion has been predicated on continually rising credit, and the management of that leviathan debt (through central bank policies, refinancing, and financial engineering) is a dominant theme in global economics <sup>3</sup> <sup>5</sup>. Analysts like former banker Richard Duncan warn that we have created an economic system so dependent on debt growth that *"Creditism is in crisis globally because credit is no longer increasing*

*fast enough to drive global growth*" <sup>5</sup> . And when credit falters, so does growth – underscoring how deeply **global prosperity (or instability) is entwined with the debt cycle.**

At the same time, this debt-centric system carries obvious risks. The \$313 trillion burden must be serviced, and rising interest rates can quickly make that burden unsustainable <sup>10</sup> . Many countries and companies face tough choices as borrowing costs climb. The **OECD** notes that between 2021 and 2024, interest costs jumped from historic lows to the highest in decades, pressuring governments to divert more resources just to pay interest <sup>11</sup> <sup>12</sup> . Should interest rates return to high levels, “the cost of servicing so much Debt will become unbearable” in many cases <sup>10</sup> , leading to defaults or crises. In effect, the world has **borrowed growth from the future**, and the bills are coming due. But until a reckoning forces change, the operating principle remains: **debt accumulation fuels economic expansion**. Understanding this dynamic gives us a new lens on policy and growth – one focused not just on labor, capital, and technology (the traditional factors), but on the **credit that binds them together**.

## **Private Equity: The “Garbage Disposal” of the Economy’s Old Models**

In parallel with the debt-driven growth model, another powerful force in modern economics is **private equity (PE)** – which can be viewed as a kind of “*garbage disposal*” for struggling or mature businesses in the global economy. Private equity firms take over companies (often ones in decline or ripe for restructuring) and attempt to wring out maximum value. Their strategies are often compared to **financial alchemy or even predation**: buy a company, load it with debt, extract cash, and, if things go wrong, let the company collapse under the weight of that debt. This is typically done through a **leveraged buyout (LBO)**, where the PE firm uses a small amount of its own money and a large amount of borrowed funds to acquire a target. Crucially, that debt is placed on the acquired company’s balance sheet itself – “it’s sort of like the company is forced to take out a loan to buy itself,” as one analysis explains <sup>13</sup> . The private equity firm and its investors aren’t on the hook for that debt if things go south; the company and its stakeholders are. This **financial engineering** creates an incentive to extract as much value as quickly as possible.

Once in control, **private equity firms employ aggressive tactics to maximize short-term cash flow**. They slash costs (often via mass layoffs and squeezing suppliers), sell off the company’s valuable assets, and frequently make the company take on even more loans to pay **dividends and fees directly to the PE owners** <sup>14</sup> <sup>15</sup> . All of this is done under the premise of “efficiency,” but it prioritizes “**extracting short-term value over the long-term stability**” of the business <sup>14</sup> . In effect, the PE owners “**bleed**” the firm of **cash** for a few years – an approach U.S. Senator Elizabeth Warren has bluntly labeled “*legalized looting*” <sup>16</sup> . Critics often liken private equity firms to “**vultures**” or “**vampires**”, because they target struggling companies and then siphon off wealth, leaving a weakened carcass behind <sup>17</sup> <sup>16</sup> . A study of nearly 500 companies acquired via leveraged buyouts found that post-takeover they were **ten times more likely to go bankrupt** than similar companies not owned by private equity <sup>18</sup> . This stark statistic reflects the outcome of the “**buy, strip, and flip**” model: many PE-owned businesses simply cannot survive the debt loads and disinvestment imposed on them, beyond the short-term horizon of the PE owners’ plan.

Yet, for a time, these businesses *do* survive – and this is where an insightful observation comes in. **Private equity firms count on the power of consumer habits and brand loyalty to sustain a company’s cash flows even as it’s being undermined**. Just as a magician exploits the audience’s predictable attention span, private equity strategists exploit consumers’ **habitual buying behavior**. When a PE firm takes over a

familiar retail chain, healthcare provider, or service company, they know that **customers will initially keep coming, largely out of habit, loyalty, or lack of immediate alternatives**. The business's reputation and customer base – built over years or decades – don't evaporate overnight. **This inertia buys time**. Even if the new owners cut staff, reduce quality, or raise prices, many customers will continue patronizing the company in the short-run, perhaps grumbling but not bolting. As one report notes, the cost-cutting in private equity takeovers predictably leads to **poorer service or product quality**, which in many cases is “only an inconvenience for customers”<sup>19</sup> (at least initially). Because of that inconvenience tolerance, **the company continues to generate revenue despite declining service**, allowing the PE owners to keep extracting money. **Loyal customers, essentially, are monetized as the last asset** of the firm – their continued patronage funds the PE firm's payouts. Only when the deterioration becomes severe do customers finally change their habits, but by then the owners may have moved on. In the worst cases – for instance, private equity's incursion into healthcare – this dynamic can do real harm (e.g. patients receiving worse care)<sup>20</sup>. But from the PE firm's perspective, even these situations are largely about timing: *can the business be kept on life support long enough to reap the desired returns?*

This candid view of private equity's “**value extraction**” model is increasingly supported by real-world examples. The collapse of **Toys “R” Us** is a famous case: after a leveraged buyout, the toy retailer was loaded with debt and fees; the PE owners and executives paid themselves **millions in payouts even as the company spiraled into bankruptcy**, leaving 30,000+ workers without jobs or severance<sup>21</sup>. The chain had a loyal customer base and decades of goodwill – parents and children still flowed into the stores – but that only provided a brief window in which the PE investors could draw out cash before the inevitable collapse. Similar stories abound in retail, grocery chains, newspapers, and more, where an acquired company's **established habit-driven customer demand** allowed it to be milked dry for a time. As **The Atlantic** put it, “*Private-equity firms can succeed when their companies, customers, and employees fail. It's a broken system.*”<sup>22</sup> In other words, the PE fund itself can turn a profit **even if the company it bought doesn't survive** – a striking inversion of the usual business logic that a firm must thrive for its owners to benefit.

To illustrate the process, analysts have compared private equity takeovers to **a virus infecting a host**. Upon entering a healthy cell, a virus hijacks the host's machinery to replicate itself, typically **weakening or destroying the host in the process**. Likewise, a private equity firm injects capital (and a lot of debt) into a target company, then hijacks the company's cash flow and assets to “replicate and enlarge itself” – paying off its investors – even if that ultimately “**weakens and sometimes destroys the host**” company<sup>23</sup>. An insider from the industry frankly noted that PE's focus is not on building lasting businesses for the common good, but on enriching the fund's partners and investors: “*That is the nature of the game. To argue otherwise is bogus.*”<sup>24</sup>. In sum, private equity serves as the economy's “**garbage disposal**” by taking on businesses that may be in decline or underperforming and **processing them to extract the remaining value**. It's a harsh form of recycling: the brand's remaining equity, the customers' remaining loyalty, and the employees' continued efforts are all squeezed for profit, until nothing of worth remains and the husk can be discarded (often via insolvency or sale).

## **A New Perspective on Debt and Private Equity**

Together, these two phenomena – **debt-driven growth and habit-exploiting private equity** – offer a sobering perspective on how modern economics really works, especially in its more **extractive** form. Traditional economic teaching emphasizes production, innovation, and efficient markets as drivers of prosperity. Those still matter, of course. But behind much of the growth we observe is an enormous expansion of **credit** – debt has become the lever that magnifies investment and consumption beyond what

current incomes would allow. **Debt is the hidden linchpin**, the *main actor* orchestrating booms and busts: global GDP can only rise smoothly as long as global debt keeps rising to fuel it <sup>3</sup>. Likewise, behind many headline corporate successes and failures of recent years is the quiet hand of private equity or similar financiers, whose calculations often center on **extracting value** rather than creating it anew. By understanding that **“any economy can grow if you keep increasing its debt”** (for a while) and that **any business can be profitable if run down strategically while customers stick around**, one gains a new, if cynical, lens on economic reality. It explains, for instance, why stimulus policies so often rely on boosting lending and debt, and why we see waves of mergers and acquisitions where the outcome is not improved products or services but hefty payouts to investors.

In the end, this perspective reminds us that **habit and inertia are powerful economic forces** – whether it’s the habit of relying on debt to drive growth, or the habit of consumers sticking with familiar brands. Debt allows spending habits to continue and expand, even when incomes stagnate. Private equity exploits buying habits to draw wealth from businesses that innovation or competition alone might have left behind. This is not the uplifting story of efficient markets maximizing welfare; it’s a more jaded story of **financial engineering** playing on human tendencies (to borrow, to keep routine) for monetary gain. By recognizing debt as the engine of global growth and private equity as the master of squeezing value from fading enterprises, we gain insight into the *less-discussed mechanics* of our economic system – a system where, indeed, **debt takes center stage**, and **savvy investors can profit mightily by knowing the endurance of consumer habits** in the face of change.

#### Sources:

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- Reuters – *Global debt exceeds \$100 trillion as interest costs surge, OECD says* <sup>8</sup>
- BIS/ISDA data on OTC Derivatives (showing ~\$730T notional outstanding) <sup>9</sup>
- Americans for Tax Fairness – *Private Equity, Public Damage* (PE value-extraction model and “legalized looting”) <sup>14</sup> <sup>16</sup> <sup>21</sup> <sup>19</sup>
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- The Guardian – *Slash and burn: is private equity out of control?* (PE as virus analogy and insider quote) <sup>23</sup> <sup>24</sup>

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