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Having risen to around 300 percent of global GDP, debt levels have reached a point where many countries face either a fiscal debt trap, a monetary debt trap, or both. In short, macroeconomic policy is in a straightjacket. It has been effectively immobilized by the fear of undesired consequences against the backdrop of such high debt levels.

A fiscal debt trap first requires sovereign debt levels thought too high to allow further fiscal stimulus. Negative market reactions could plausibly spark higher interest rates, raising debt service and also debt-to-GDP ratios. The "trap" closes when fiscal restraint seems to threaten the same outcome, as austerity could drive down GDP faster than it reduces the sovereign debt level. A monetary debt trap implies a similar immobility.

Easing monetary policy encourages more private debt accumulation and rising debt ratios. The "trap" closes when monetary tightening again threatens the same outcome. Higher debt service charges could lead to serial bankruptcy, menacing banking systems and possibly sharply lowering GDP.

How did we get into these traps? The answer is that, for decades now, both fiscal and monetary policies have been conducted in a markedly asymmetrical fashion. In downturns, government deficits were generally allowed to rise more than surpluses were accumulated in upturns. As a consequence government debt ratios ratcheted up over successive cycles. Similarly, in downturns, interest rates were allowed to fall more than they were raised in upturns. As a consequence, interest rates ratcheted down and private debt levels ratcheted up over successive cycles. Both fiscal and monetary authorities judged the appropriateness of their policies solely in light of the near-term effects on aggregate demand. The possibility that the cumulative effects of these policies might eventually preclude their future use received almost no attention. Nor did cumulative negative effects on the supply side.

We are now at the end of that very long path. Debt is now the elephant in the room whose presence must be openly discussed. Moreover, in many countries offbalance-sheet promises (such as pensions and medical care) dwarf contractual obligations. And to add to the gloom, the favorable global demographics of the last thirty years or so are now turning into headwinds slowing down global growth and the capacity for debt service.

While structural reforms to foster faster growth would surely help, as would the use of available "fiscal space," their potential benefits should not be overestimated. Realistically, we must now envision some combination of more explicit debt restructuring, acceptance of a moderately higher level of inflation, and even financial repression. Admittedly, each of these comes with unwelcome side effects, yet they could also allow an orderly unwinding of debt ratios that have become unsustainable. The alternative would be the disorderly unwinding seen many times in history. For both economic and political reasons, with the latter problems already increasingly evident, the disorderly path is not the one that responsible authorities should follow.