

How did David Cameron get a first in PPE?

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Rumour has it that David Cameron has a first in PPE from Oxford. The E stands for economics. However, the only way that's possible is if he did what all creeps do: read the set texts and never ask a question. Why do I say that? Because there is no sign at all that he actually learned anything from the process.

What's the evidence? Because this morning he's saying that the only cure to our financial crisis is that everyone, government, business and individuals must put all our efforts into paying off our debts.

Now it so happens that I do think debt is, particularly if personal debt used to fuel excess consumption, a 'bad thing' and I dedicate a lot of space to this issue and how to address it in *The Courageous State*. I also think bank gearing to fund speculation and business borrowing to finance mergers and acquisitions are also seriously bad news for the economy, being wholly unproductive uses of cash that drain resources from the real productive economy that meets human need. This activity is where the so-called practice of 'squeezing out' that neoliberals attribute to borrowing really occurs. But all that being said to have everyone throughout the economy at the same time seeking to reduce their debt is an economic prescription straight from the mad house (or maybe Oxford; you choose).

Why is this so crazy? There are three main reasons. First, and most importantly, if everyone saves at the same time we very obviously get a recession. If people don't spend what they earn, which is necessary if they are to save, then demand crashes. If demand crashes then very clearly employment crashes with it, businesses fail and recession follows. So that is what Cameron is calling for.

Secondly, if we have everyone repaying debt then the money supply also crashes - because debt is the basis for all money creation in the UK. Now we could get round that with QE, for example, but the government has given away responsibility for such issues and as such Cameron is calling for a cut in the money supply and a consequent liquidity crisis at the same time as he's calling for recession. Smart move Dave.

Third, Dave really has not got his head around the fact some debt is really, really useful. Government debt is the most useful of all. We need vast amounts of it because the annuities that underpin almost all old age pensioners private pension income are based on the ownership of gilts - that is, government debt. Perhaps he doesn't realise this, but if the government were to repay all its debt, which seems to be his fantasy, he'd destroy the entire logic of the private pension sector. It's an interesting idea that this seems to be what he is setting out to do.

So universal debt reduction is a massively bad idea.

Cameron also ignores the fact that it is also basically not possible: it's pretty much an accounting impossibility that we can all reduce debt together. Debt is owed to people. Unless those to whom money is owed agree to sit on massive piles of cash they will not spend or even save with a view to earning interest when debt is repaid to them then everyone repaying debt simply can't occur. I agree the issue is a little more complex than this, but that's the essence of it.

That does not mean reducing pernicious debt of the sort I note above is not possible. I note lots of ways to do this in *The Courageous State* so now is only time for an overview.

Firstly, you cut business debt by removing tax relief on it.

Second, you cut pernicious personal debt by regulating the personal finance markets.

Third, you take action to stop the advertising whose main aim is to drive people into debt. In particular you remove tax relief on it.

Fourth, you provide sufficient social housing to ensure people aren't forced into excessive mortgages.

Fifth, you regulate takeovers and mergers.

Sixth, you introduce capital controls.

Not all of these will go down well with the Tories. But they're preconditions of reform.

And finally you have to make sure that people have incomes that make sure they can generate the cash needed to repay the debt. This is so glaringly obviously a part of the equation that it is staggering that Cameron does not mention it. If people are repaying debt there is a shortage of demand for consumption which is fine if, and only if, the economy is rebalanced by excess demand for investment in the creation of new productive assets at the same time. And since business glaringly obviously won't be picking up this issue, since it will be suffering a downturn in demand, then the only agency that can ensure that the equation is rebalanced during a time when most debt is being repaid is the government.

In fact for the government this is a no-brainer. Unless it spends in this way mass debt reduction will mean that the automatic stabilisers - benefits payments - will sky rocket as demand crashes and recession sets in - as Cameron is demanding. The alternative is to spend that money productively - on investment that creates employment.

But Cameron has not mentioned this. He wants everyone to cut debt - which is impossible. His failure to understand this logic is frightening. And it also guarantees recession.

And he's in charge. Very scary indeed. You have every reason to be very, very worried. I am.