

You can only deleverage by taking on more debt

Published: January 12, 2026, 10:17 pm

From [Martin Wolf in the FT this morning](#), and important pre-the budget:

One cannot get out of debt by taking on more debt. How often have you read such remarks? It is a clichÃ©. As the McKinsey Global Institute study points out, it is also false.

The benign story unfolds like this: a big increase in leverage ends in a huge financial crisis; the government promptly restructures the financial system; excessively indebted private borrowers reduce their obligations by slashing spending; central banks cut interest rates; the resulting collapse in activity and profits pushes the government into huge fiscal deficits, which also support the economy; finally, the economy recovers, helped by exports, and the government begins its fiscal retrenchment.

Thus the temporary rise in fiscal deficits helps protect the economy from the forced private retrenchment. The alternative would be a depression, in which mass bankruptcy, not repayment, lowers debt.

Osborne's plan is mass bankruptcy. He'll fail because as is very obvious he'll run a deficit instead. Some of us told him to positively embrace that fact long ago. He didn't listen. It's one of the many failures to listen by this hopeless government.