

# You can only deleverage by taking on more debt

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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 cliché. 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.