

The world does not have a debt problem: it has a wealth...

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It's commonplace to say that the world has a debt problem. It doesn't. It has a savings problem. Let me explain using the data from Boston Consulting group [that I referred to here on Saturday](#).

What Boston Consulting Group argue is that the world's most wealthy people (by far) now have assets worth in total about US\$166 trillion. This is how they summarise it:

And what they argue is that this sum will grow to US\$223 trillion, which is an increase of 34% implying annual growth of at least 6%, which is way faster than the world economy will grow.

And how are these sums invested? They summarise this as follows:

I am going to work on the global figure. The growth can't all be in equities: if it was then equities would have to increase in value by 79% over the period, implying well over double digit equity growth rates over the next five turbulent years. I think that unlikely. I think it even more unlikely if there is any unwinding of QE, which will push down bond prices. And so cash must also be forecast to grow heavily by Boston Consulting or this wealth increase is dependent upon market change assumptions, as well as wealth ownership share assumptions, that push all boundaries of credibility.

Now let's look at what any of these assumptions imply. First, if bonds are to retain value I think it is assumed QE unwinding will not happen and interest rates will remain very low.

Second, even so, it is assumed that nothing is going to upset the trajectory of stock markets.

And third, it's assumed that the very wealthiest are going to be depositing vastly more

cash than ever before.

I buy the second assumption: I think talk of QE unwinding is unreal and that no one is going to risk it because they know no market wants it and no economy can survive the resulting liquidity issues that this may create.

I buy some continuing equity growth, not because it is rational or justified but simply because if the wealthy get wealthier they have to save in something and the supply of equities is being deliberately kept short by a lack of new share issues and by massive share buy-back programmes that mean more money is chasing fewer shares and so the price goes up, whether they're worth the money or not.

But it's the cash that really interests me. These are savings. [As I have explained](#), and as the Bank of England agrees, the economy does not need savings. They are not what funds investment. When a bank makes a loan it does not lend on depositors' money. What it does instead is create new money. And what savings are is the unspent part of that new money that was created out of the loan.

Think of this another way. The borrower has spent the money they secured from a bank and they have to service the debt. But some of the people they paid are not spending what they received; they're saving it. But that does not create new loans or investment, because we know that's not true and we know savings have no role in that process. So what do these savings represent? Quite simply they are money withdrawn from use in the economy.

This is serious, especially if it's going to exceed US\$10 trillion a year. What it means is that the borrowers (and I worry most about small business and individuals here) are trying to service debt but the rate of growth in the economy that should permit them to do so is being severely limited because vast sums that they're spending are being withdrawn from the economy each year as savings, which slows the entire economy down by preventing the flow of money within it. The result is simple: we remain in the economic doldrums at best; income growth remains poor, whilst the stock of world savings grows outrageously and governments, as the borrowers of last resort for the savings of the world's wealthy, have to continue to run deficits which they say curtails their opportunity to take action to redress any of the economic issues arising (whether that is true or not, which for the record it is not). And in the meantime those in debt have to borrow more to service debt that already exists. The spiral is very dangerous.

But this debt is not then created freely; it is created because a tiny, but incredibly wealthy, minority in society are choosing not to spend. And this is a trend that is forecast to grow, rapidly. There is then no hope of growth; no hope of governments clearing deficits, and no hope of signs of future wellbeing in the Boston Consulting forecast. It does instead suggest substantial increases in private debt and government borrowing because the wealthy want to claim an ever growing part of a pie they are doing their best to shrink by saving excessively.

What is to be done about it? The answer is that if the world is facing such an enormous glut of savings then they have to be taxed as fast as possible to prevent the imbalances they create. So we need higher corporation taxes. We need withholding taxes on dividends and interest going to tax havens. We need capital gains taxes at rates as high as income taxes. We need an investment income surcharge to increase tax rates on unearned income to match those including national insurance on earnings. And we need effective wealth taxes. Plus a continued crack down on tax havens, of course.

And I mean we may need all of these. The world cannot afford for its wealthy people to become US\$57 trillion richer in the next five years. That would be a disaster for us all, including the wealthiest. So action is needed urgently. And now. We can't wait for things to get ugly.