

It's Keynes or bust. Which is it to be?

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As the [FT notes](#):

Even as the ink is drying on Portugal's European Union and International Monetary Fund bail-out agreement, evidence is mounting that last year's bail-outs of Greece and Ireland have failed. Far from improving their access to the financial markets, Greece and Ireland face record borrowing costs. Notwithstanding the slightly less draconian terms of Portugal's agreement, it will surely suffer a similar fate.

No one can dispute any of that.

After doing everything demanded of them these countries are failing. They have slashed budgets. They have increased taxes. They have signed up to the most penal of bailout measures. Everything that a neoclassical economists could demand of them has been done. And yet there is absolutely no sign whatsoever that 'expansionary fiscal contraction' is occurring. Far from it in fact: their economies are being destroyed by the measures that are meant to save them.

Only one thing can save Ireland, Portugal, Greece, Spain and other countries facing similar crises. That one thing is a Keynesian expansion. Only if these states are allowed to either borrow to invest, or better still, are given grants to achieve the same goal, will they be able to meet their past debt obligations. And yet if they fail to meet those debt obligations we have another massive banking crisis on our hands, certainly as big as that which we saw in 2008.

To be blunt, it's Keynes or bust. Which is it to be?