

The madness of George Osborne - or expansionary fiscal ...

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George Osborne believes in the absurd theory of expansionary fiscal contraction. It's worth giving the notion a few minutes of thought since his belief is currently wrecking the lives of millions in this country and the prospects of millions more.

Expansionary fiscal contraction is what is called a general equilibrium model based on the ideas of neoliberal economics. For [the wonks there's an explanation here.](#)

What this means in fairly lay terms is that the model assumes that we know the future. This is of course something we can all recognise as being very obviously right: it's glaringly obvious that we all know what is going to happen to us from now on, isn't it? If you disagree, just note that means George Osborne disagrees with you, and vice versa.

And the model also assumes that we all believe that if only the government spent less we'd all be better off. That's clearly also universally true: isn't everyone agreed we want less health care, education, pensions, protection when we're sick, law and order, child protection, health and safety (so we can have many more industrial accidents), road safety, environmental protection and so on? We're all agreed, aren't we? Those are, after all, 'bad things', aren't they?

Now, assuming we are agreed with George, what George also agrees on with the economists is that if we now know that he has promised that he will spending less of our cash in future - not because of the recession mind you - but just because that's what he always intended to do - then we all are absolutely confident he can deliver that objective without any disruption to our current well being (as you've all noticed) and that we will all proceed to this land over-flowing with the riches of milk and honey without a hitch and with absolute certainty that the benefits we all dream of from the resulting lower taxes that we will pay will flow into our pockets, wallets and offshore bank accounts (all full declared, of course) from whence we will be able to spend them.

And because George is sure that we have that confidence because we know the future with certainty the result is that he's also sure that we will all go out now and spend more today to celebrate the fact that in a few years time we will have more income as a

result of George's largesse in cutting our taxes - as he will do for reasons that have nothing to do with his own self interest in 2014, precisely.

So, although we have not got the tax cut yet - and big companies apart there has as yet been no hint of an announcement that they will happen, we should all be celebrating the fact that we know they're going to happen by going out now and borrowing more to spend now in anticipation of the fact we'll have much more income in the future to repay the debt.

That, I promise you is how the theory of expansionary fiscal contraction works when all the crap and the formulas are cut away. And that is the basis on which George Osborne thinks that his cuts will make the UK economy grow. He really does think we should all be dancing in the streets and borrowing money to spend now to celebrate the fact that he's going to give us tax cuts with absolute certainty in the future even though he's being coy enough to not say when.

It is this theory that suggests why he thinks that cutting public sector jobs will result in the creation of private sector jobs straight away because we will all be spending the anticipated savings now. And it is this theory that explains why his budget forecasts a considerable increase in private borrowing over the next few years - borrowing that he thinks we will all undertake in anticipation of his tax cuts that will follow which will allow us to repay the borrowing.

And let's be blunt about this: it's utterly crackpot. We don't know the future. We don't know cutting spending will result in reduced taxes in the future when right now we're still in deficit. We aren't confident that if tax cuts happen they will let us consume more - they might just cover the increased health insurance we take out because of NHS cuts, the increased pension contributions we have to make, the increased savings we need for old age and more of the same besides. Because that's the rational response to the cuts being made by the state. So in fact we may rationally not consume more at all.

But on the basis of George's crackpot belief in this crackpot idea the UK is being plunged into economic turmoil.

And the fact that the idea will not work is becoming increasingly apparent: 10,000 jobs have been lost on the High Street in the last week. And still George sticks to his guns because, to be candid, he believes in a world of make believe.

We all have the right to be very, very worried.