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According to reports clearly leaked to the right wing press this morning George Osborne will announce a new programme of 'dynamic tax scoring' today. According to Fraser Nelson in the Spectator, who can hardly contain his excitement:

When George Osborne releases the bumpf accompanying his Autumn Statement tomorrow, I understand that there will be one paper that will be quite unlike anything presented by a previous chancellor. There will be a study on dynamic tax scoring: ie, recognizing that tax cuts stimulate the economy, and that the Treasury can expect to claw back money when it liberalises.

This paper is seen by Team Osborne as something of a quiet revolution in the Treasury. The machine they inherited was programmed to see tax cuts as a permanent loss to the government, when in fact most tax cuts recoup some of their cost in the extra activity they unleash. The new Treasury paper shows a brand new way of thinking about tax — and one which, if you follow the logic, paves the way for a lot more tax cuts.

Oh dear: poor dear Fraser, and even more, poor dear George; even Allister Heath in City AM has realised that all George has done is rediscover Keynes.

Those of us who know our Keynes have known the Treasury view on this issue has been wrong on this issue (as on so much else) since the 1930s. We have known that there is what is called a 'multiplier effect'. Wikipedia defines the multiplier as:

In economics, the fiscal multiplier is the ratio of a change in national income to the change in government spending that causes it.

The whole issue is well summarised by Duncan Weldon of the TUC here, but in summary the idea of the multiplier is that the impact of a change in government spending or tax is not just on the government budget but also through its knock in effect. This is precisely why, for example, the likes of Ann Pettifor and I argued VAT increases were bad news: they didn't just raise revenue, they helped crush the economy too. And that's also why I argued in May 2010 that the only way to cut government debt was to increase spending - because that spending would raise more in tax than was borrowed.

This argument was completely dismissed by the government at that time. Duncan Weldon explained why a year ago:

The OBR, in June 2010, summarised its view on the multipliers as follows:

Change in VAT: 0.35
Change in personal tax and NICS: 0.3
Change in welfare spend: 0.6
Change in departmental spending: 0.6
Change in capital spending: 1.0

By contrast the IMF now believes they are between 0.9 and 1.7.

Now what we will 'learn' today is that George Osborne now thinks that corporation tax cuts have a multiplier effect of 0.7 i.e. 70% of the cost of the cuts in this tax will be recovered in additional growth over the next 20 years (note the time scale; I hope he has discounted the impact and allowed for uncertainty, although I should add that all multipliers are subject to time lag, but few as long as this). And us Keynesians will say 'what took you so long to catch on George?'

But we'll go a lot further than that. We'll say that if tax cuts are according to all known multiplier calculations the worst way of boosting the economy why is he focussing on them? And why is he not instead talking of investing in the economy instead of freezing infrastructure spending - as announced this week - when that always has the greatest impact on the economy as a whole.

I welcome George's conversion to Keynesianism. It's overdue. But what I should make clear is that he's just walked into dangerous territory. The multiplier effect of corporate tax cuts will be tiny - indeed the 0.7 is below the expected range of multipliers for the UK as forecast by the IMF precisely because big business is already sitting on enormous piles of cash it has no idea what to do with.

George Osborne will announce dogma today. It's time for an effective opposition to attack that on the grounds of solid theory and to say that is the multiplier is now in play investment and spending is the way to clear the deficit. But will they?

This debate just got interesting.

Hat tip: Ann Pettifor