

We face an economic crisis because of ignorance, dogma ...

Published: January 13, 2026, 12:51 pm

I [posted this thread](#) on Twitter this morning:

The most difficult thing about writing about economics at the moment is working out why it is that those who are in charge of our economy think that anything that they are doing makes any sense any more. A thread ,,,

As most economists would agree, when faced with a recession and the likelihood of rapidly falling inflation (with both being near certainties in the UK at present) the three thing a government should do are cut taxes and interest rates whilst increasing spending.

The reasons for taking such actions should be obvious. In recessions household incomes fall, so they need support from lower taxes and interest rates. Lower interest rates might also encourage investment and government can kick-start recovery by spending. It's not rocket science.

What is actually happening in the UK is the exact opposite. Interest rates are being increased, dramatically and without reason as inflation is already falling and is guaranteed to do so. Meanwhile taxes are increasing on those unable to pay them. And austerity is back.

Doing any one of these three things would likely have serious detrimental economic consequences at present. Doing all three is guaranteed to deliver massive economic stress for the UK economy, which is my forecast for it for 2023 just in case anyone is in doubt on that issue.

The point I want to make is most of that stress is unnecessary. It could, in other words, be avoided by government action. What is more, it should be avoided by that action. Instead it is being chosen. So why is that almost incomprehensible choice being made?

I can offer three reasons. They are ignorance, dogmatism and spite. That needs to be explained.

When it comes to ignorance, it seems that those in charge of the economy have no idea how inflation happens, how it is calculated, and how its impact needs to be managed.

So, they believe all inflation is caused by excessive pay rises resulting in households having excess money to spend, meaning that prices are dragged upwards by a surfeit of demand in the economy. This is their only explanation and they won't look for another.

The trouble is that the real world is not behaving like this right now. We actually have inflation despite most households (excepting those of economic policymakers, who are doing just fine right now) not having the means to pay their bills.

This is a scenario not in standard economics textbooks and so those in charge don't believe it can exist. The fact that it does exist and has been created by events outside the UK, and so beyond the reach of anyone in the UK to put right, is therefore beyond their comprehension.

In that case they are doing what the textbooks tell them to do, which is to put up interest rates even though that can only make matters worse. This is the result of ignorance. It could also be described as stupidity: simply observing the facts suggests this policy is wrong.

Add to this the fact that, as I have explained often, inflation is measured by a very simple index that simply compares this year's prices with last year's and the fact that in current circumstances inflation must fall in 2023 should be obvious. That it isn't is down to ignorance.

Ignorance also motivates their response to this inflation. If they understood it they would want people to have inflation-matching pay rises so that demand is maintained. Instead they want to crush pay, guaranteeing hardship and recession.

Then there is dogmatism. There is no reason why we need 'independent' central banks. Nor, come to that, do we need to pretend that government forecasters are independent of their paymasters in the Treasury. These things are choices motivated by a dogma that hates government.

This hatred of all things to do with government, including democratic accountability, is motivated by a naive form of economics that says it is dedicated to freedom, which it believes is evidenced by the existence of unregulated markets.

The dogma in question is explained in equally naive maths which it is claimed proves market solutions to all known economic problems are better than those that the state might ever supply. This, however, is the result of rigging the assumptions so that this

outcome is guaranteed.

And that maths says that inflation must be countered by increasing interest rates, and increasing government deficits should not happen because government books must be balanced. I stress, the maths is rigged to say this. But naive economists and politicians believe the results.

This belief is best explained by the suggestion that this sort of economics behaves like a cult, brainwashing its believers into thinking there is one true path to salvation and that the cult is the only group that knows it.

We have had privatisation, deregulation, austerity, outsourcing and outright hostility to public services and servants as a result. They have all failed and they have left us in a perilous situation. And the demand from the cult is that government now deliver more of the same.

And that is what we are getting. The neoliberal cult has decreed that ordinary people must suffer more to prove their dogma works, so those who follow the cult believe that they are doing the right thing by imposing that hardship on society. That explains their policy choices.

Spite is the third motive for the policy choices we are facing. The Tories know they will lose the next election. In that case what they want to leave Labour is an evolving total economic mess so that five years later they can claim the problems were of Labour's creation.

The Tories know that lies of this sort served them well in 2010 and afterwards. They are now, out of spite, trying to ruin the country for the next five or more years so that they have a hope of returning to office in 2029. They don't care about the damage in the meantime.

The Tories are just acting out of spite. But Labour is not calling them out for doing so. This is the hardest part to explain, barring one thing, which is that most leading Tory and Labour politicians share the same education, which is the Oxford PPE degree.

PPE does, in this case, stand for politics, philosophy and economics. That means it is close to a general studies degree and does nothing in sufficient depth. So, those who take it learn the naive basics of economics and never get far enough to realise the basics don't work.

We are paying an enormous price for that. The consequence is the policy failure we now face and the harm that will result from it.

I hope Labour realise the folly of their ways soon. The country needs them to do so. If they want to do anything useful in government they need to do so. But until they do we are doomed by ignorance, dogma and spite, none of which are necessary.