

We won't get out of our economic mess until we realise ...

Published: January 13, 2026, 7:43 am

I note that Philippe Aghion, who is an adviser to new French President Françoise Hollande [is arguing in the FT this morning](#) that:

France's future depends on delivering all three of growth, social inclusiveness and budgetary discipline. No one element can be achieved without the other two. Without a belief among the French that burdens are shared, it is hard to elicit the necessary sacrifices to achieve budgetary discipline. In turn, fiscal discipline should allow the government to conduct more expansive fiscal policies to boost growth if demand is depressed. Fiscal reform and spending cuts will also allow France to fund investments that support growth.

I am not sure that I agree. The difficulty with economists like Aghion is that they really don't get accounting - and for all its deficiencies accounting also has some important insights to offer.

I've [argued before](#) that in macro-economics there are just four drives of growth. They are increases in consumer spending, exports, business investment and government spending. Hollande cannot expect any increase in the first three right now so growth has to come from the government. Let's not beat around the bush: this is the only way out of the recessionary environment we're in now.

But, and I make the point very strongly, to treat all government spending as equal would be a big mistake. It is not. There is a very big difference between the revenue and capital cycles and it is vital that people begin to talk about it.

There is not a shadow of doubt we need new investment in our economy. We need social housing, new generation capacity, a water grid, flood protection, improved railways, innovation in low carbon impact road vehicles and more. No one but the government is going to lead those processes. and there is money to do it. There is £2.2 trillion in pension funds in total. There are about £80 billion of pension contributions a year. Requiring just one quarter of all new pension contributions go into new infrastructure investment - in exchange for a

guaranteed and proper return, maybe with an upside if something went especially well, is a wholly reasonable condition of giving pension tax relief. And green quantitative easing could provide the £20 billion capital for a national investment bank needed in the UK - which is being denied to it at present.

So long as these funds were invested with a view to returns then they're not part of the revenue cycle and should not be considered part of the deficit or government borrowing. It is ludicrous that such stupid accounting definitions are destroying real lives and constraining real growth - precisely because the government is slashing investment now to try to balance books to meet these accounting rules, and is destroying lives in the process. No business is constrained by such stupidity. When they invest the profit and loss account is not punished - the asset is put on the balance sheet and the behaviour is applauded. That should be true for government too.

Until we realise this we won't get out of our current mess - whatever happens to the Euro.