

Funding the Future

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In this morning's Economic Truths series video I suggest that it is an economic truth that every action has a reaction, and yet economists and politicians often ignore that fact by pretending that some forms of government spending - and most especially benefits - deliver no useful outcomes at all. That's not true, but what it says is that this process of thinking about reactions requires their serious attention.

<https://youtu.be/8GINnHCVMDw?si=gVcRIA2hjU80sBoP>

The audio version is:

https://www.podbean.com/player-v2/?i=ej2kx-168b663-pb&from=pb6admin&share=1&download=1&rtl=0&font=Arial&skin=8bbb4e&font-color=&logo_link=episode_page&btn-skin=ff6d00

This is the transcript:

Every action has a reaction. Physics teaches that. So should economics. Because it's as true in economics as it is in the physical world.

Why? Well, if I spend money, someone gets it.

If I do something for somebody, they benefit.

It's as simple and straightforward as that.

And we know that this is the case because in the world of accounting, which records how the real-world works - more so than any economist has ever managed to create a model to do - there is a system called double entry bookkeeping.

And double entry bookkeeping exists for a very good reason, and that is because it understands, in a way that most economists do not, that every action has a reaction. Because economists don't understand this, they actually put forward the idea, very often, that some forms of spending do apparently disappear into black holes, and are of no great benefit to society.

Politicians mimic this. They will go around saying, this money is wasted. They'll talk about benefits in that way, in particular.

And our economists at the UK's Office for National Statistics actually make up sets of accounts for the UK which deliberately don't balance because they don't recognise that every action has a reaction, and they will not use double entry bookkeeping to prepare the accounts on which the decision making of our government is undertaken.

That's absurd because it does allow for this stupid idea that somehow or other some economic actions are purely beneficial and others are a pure waste, when in fact every action has a reaction.

So, for example, when the government spends, it isn't money poured into a black hole. Although, over the decades that I've been listening to politicians, you would believe that is the case. Instead, every time the government spends, somebody has income. Straightforwardly, simply, they have to because that's the other side of the equation. Government spends, someone has income.

When that somebody who gets income spends, somebody else has income, and on.

Now the point about this is that we cannot think, therefore, of any government action, or any action in the economy at large, in isolation. We always have to imagine what the reactions are.

And I would stress that the reactions come in two forms. One is the obvious financial consequence of the action that is being taken. So, if the government spends, as I've already said, somebody gets an income.

But suppose the government spends most unwisely on, for example, creating a new coal mine, as our last government intended to do, and which has not yet been cancelled by the current government. That coal mine would produce pollution: unacceptable levels of pollution, either in the UK or wherever, when the coal that it brought out of the ground was burned.

Now, the reaction is measured in the terms of the wages paid to the miners and so on. But it's also the cost of the pollution.

So, we have to think about the first, and second, and further consequences of any action as well. It's not acceptable for anyone to only think of the immediate reaction when proposing a policy. They have to consider the further consequences of their

actions as well.

Now, as grown-up human beings, that is what we learn to do. Children might think, I can hit somebody without worrying about the consequences. As adults, we should have learned that we can't hit anyone without thinking about the consequences, and there are lots of them. We understand that implicitly and reflect it in our behaviour. But economists and politicians don't seem to when it comes to managing the economy.

So, what we need to do is take the lesson from accountants and understand that every action has a reaction and think about what the immediate financial consequences of anything that is planned might be. But we need to be a little more mature than that as well, and we need to go beyond that purely financial measure of reaction and look at what the further consequences of our behaviour might be, and choose the best courses of action that are suggested as a consequence.

This is mature government. This is mature management. This is mature thinking, and I just wish we saw it in use.