Great Economic Thinkers

What kind of budget would Keynes propose for France in 2026?

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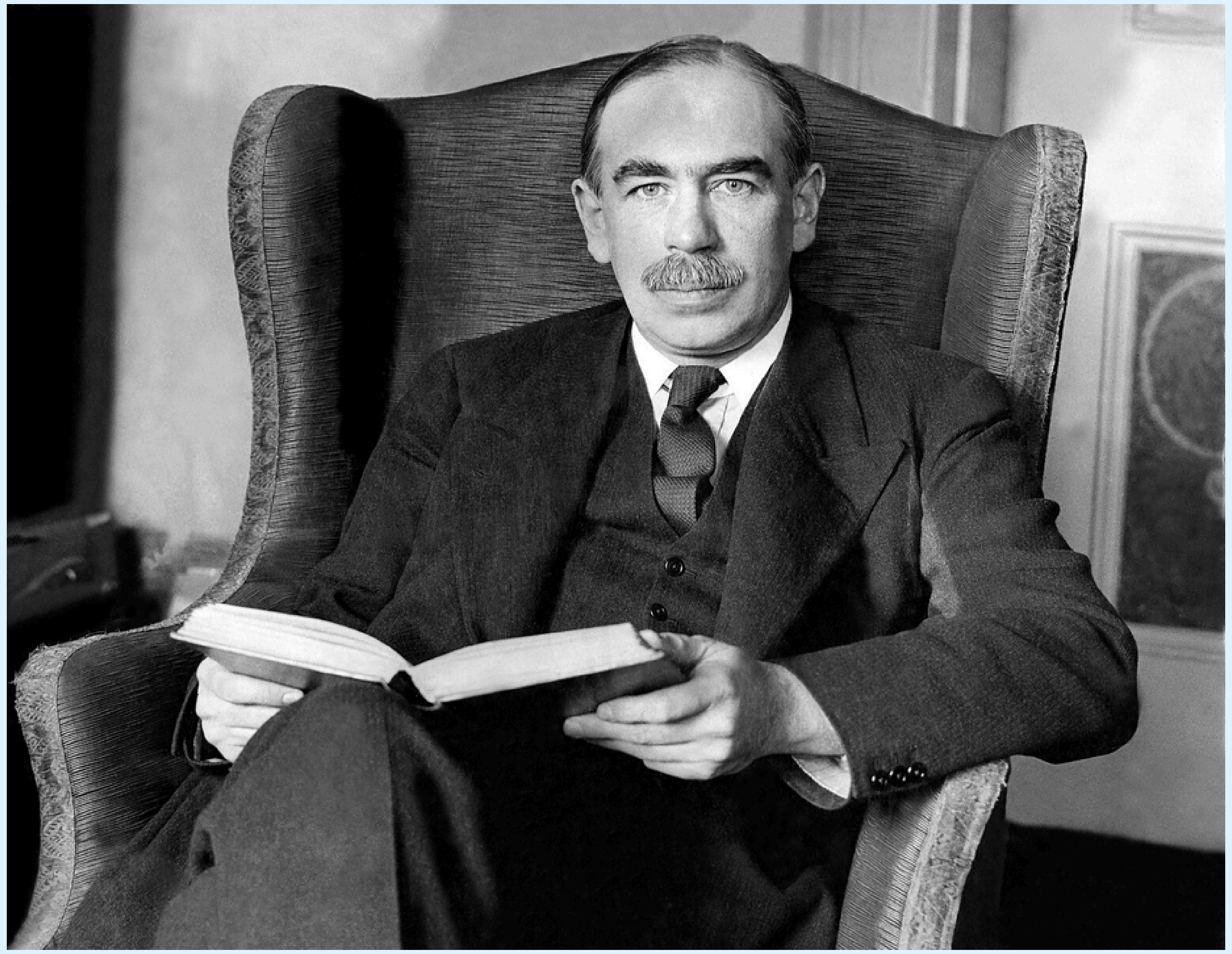
Summary

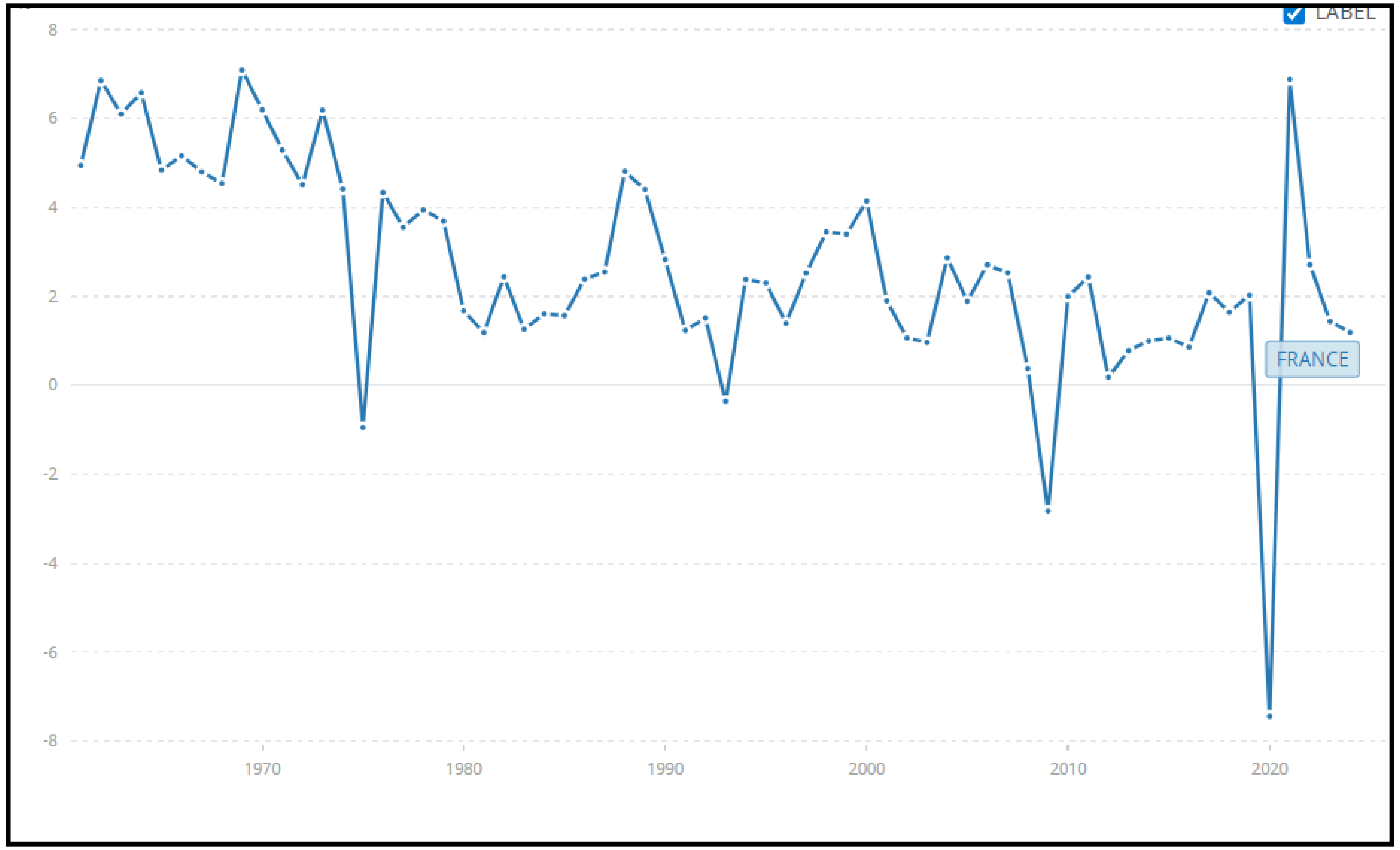


Part 1: The French Economic Context

Part 2: The Perspective of Keynes on the Economy

Part 3: The Budget Proposition of Keynes

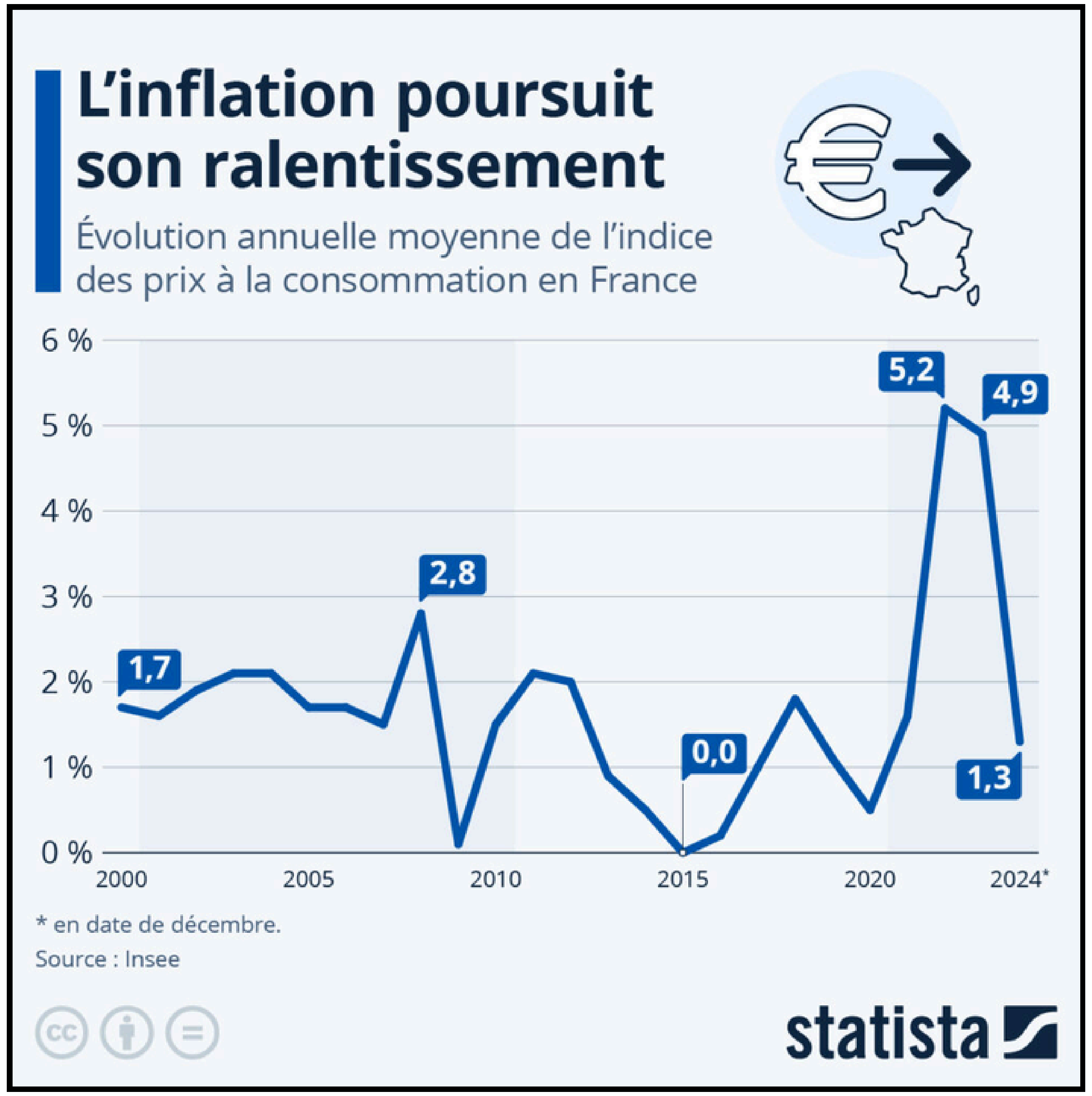
GDP Growth



GDP growth (annual %) - France (Source: WorldBank)

Slowdown: Growth around 1% for 2025-2026
→ consequences: slow structural growth with limited production gains, negative impact on tax revenues

Output gap: estimated at -1.2% in 2025 (HCFP)
→ consequences: underutilisation, lack of aggregate demand



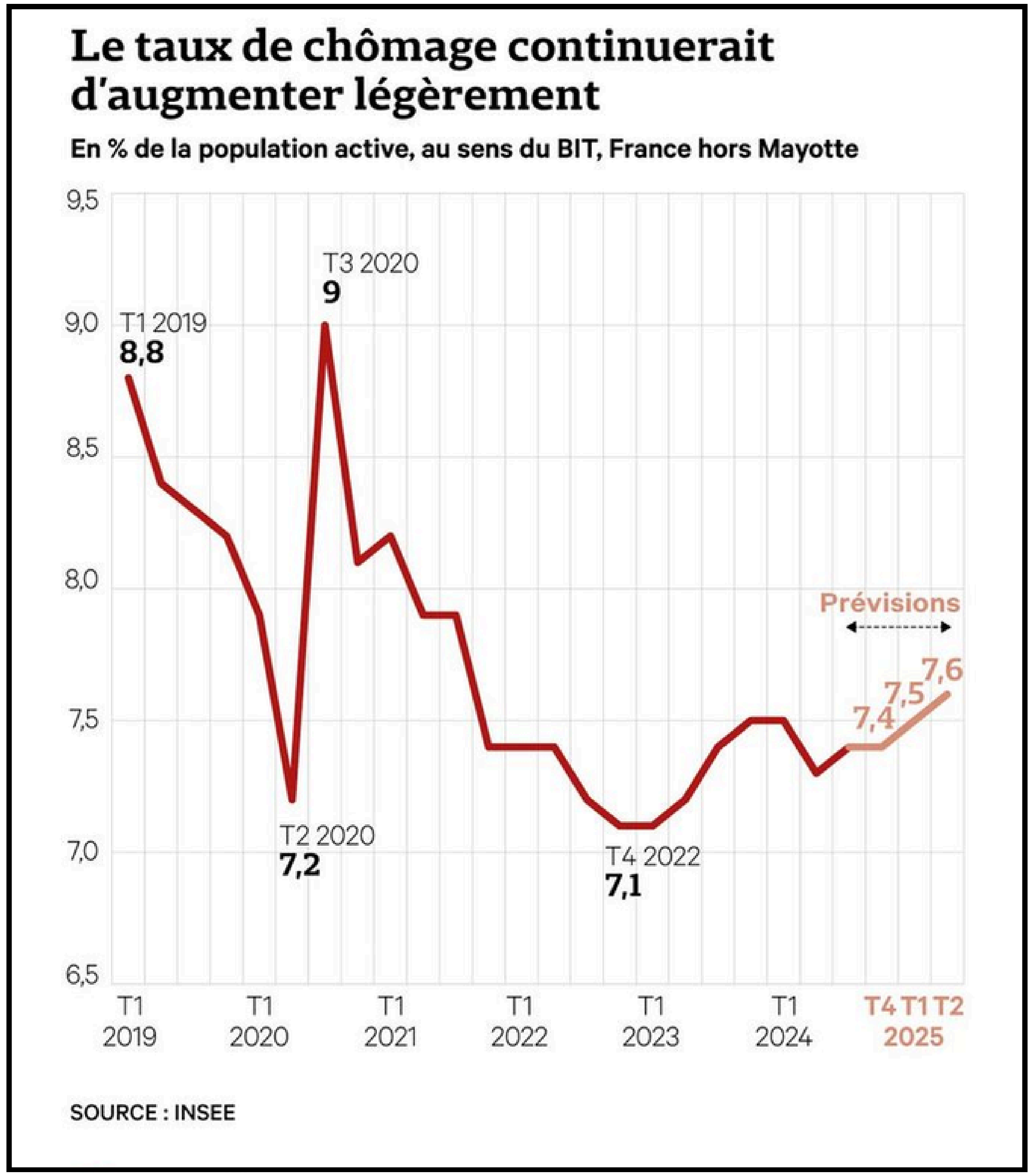
Inflation slowdown (Source: Statista)

Inflation

Inflation falls back to levels close to 1% or 2%, close to the European Central Bank's target

causes → lower energy prices

consequences → can signal a lower demand, reduced incentives for investments



Outlook of Unemployment Rate in France (Source: INSEE)

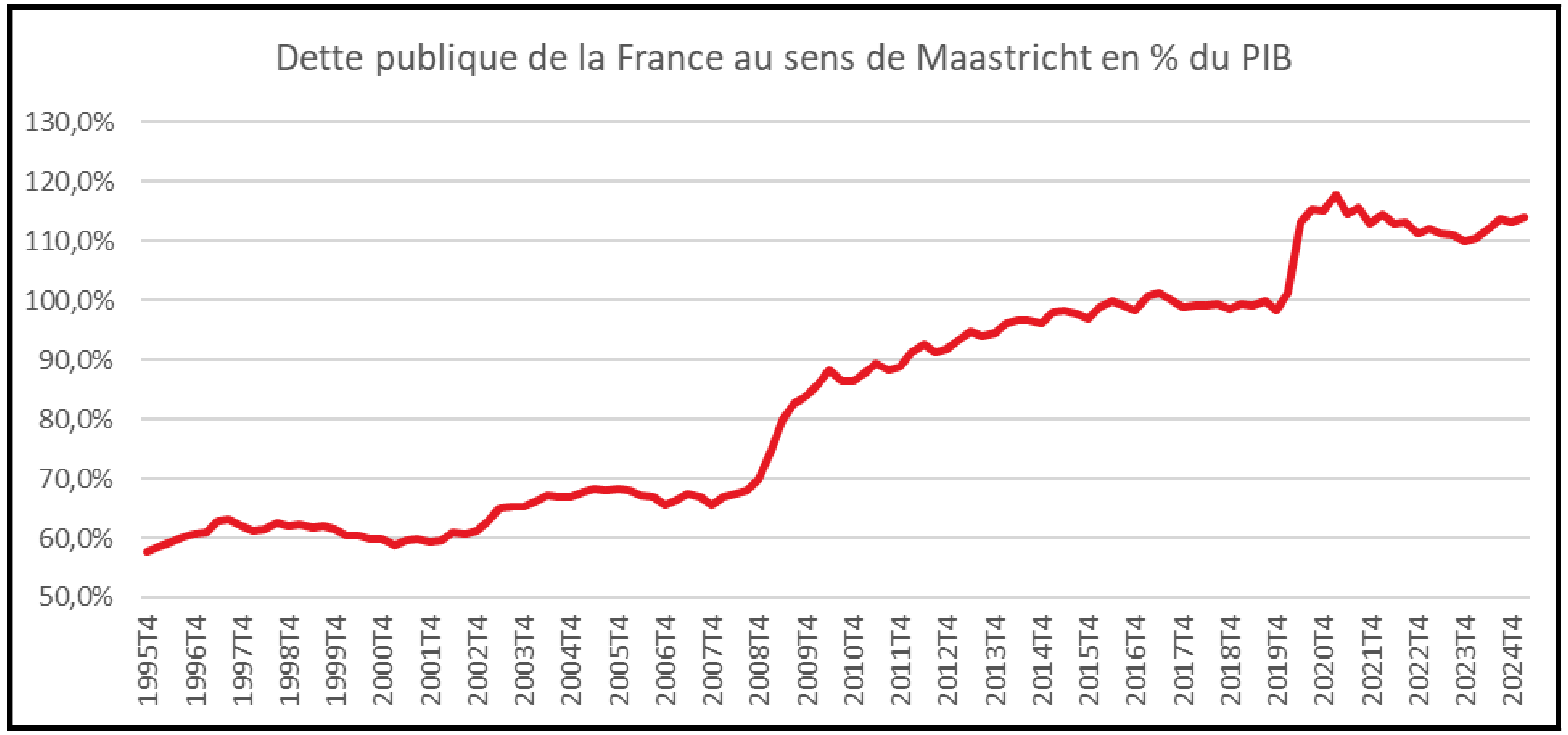
The Labour Market

For 4Q 2025 unemployment rate reached 7.9% (increase of 0.6 pts compared to last year)

cause → less dynamic labour market due to weak global demand

consequences → negative impact on tax levies and welfare payments

Public deficits and debt

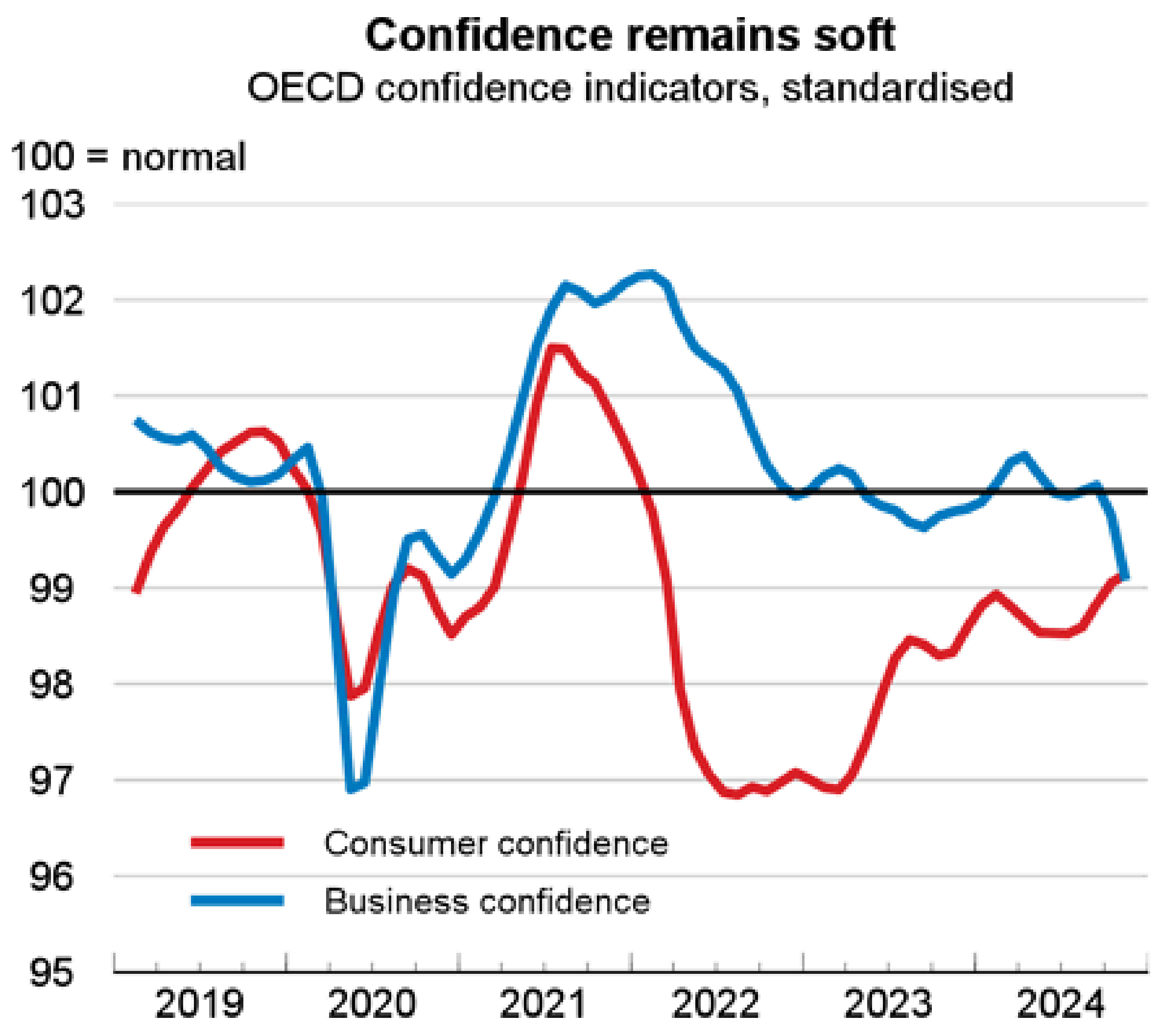


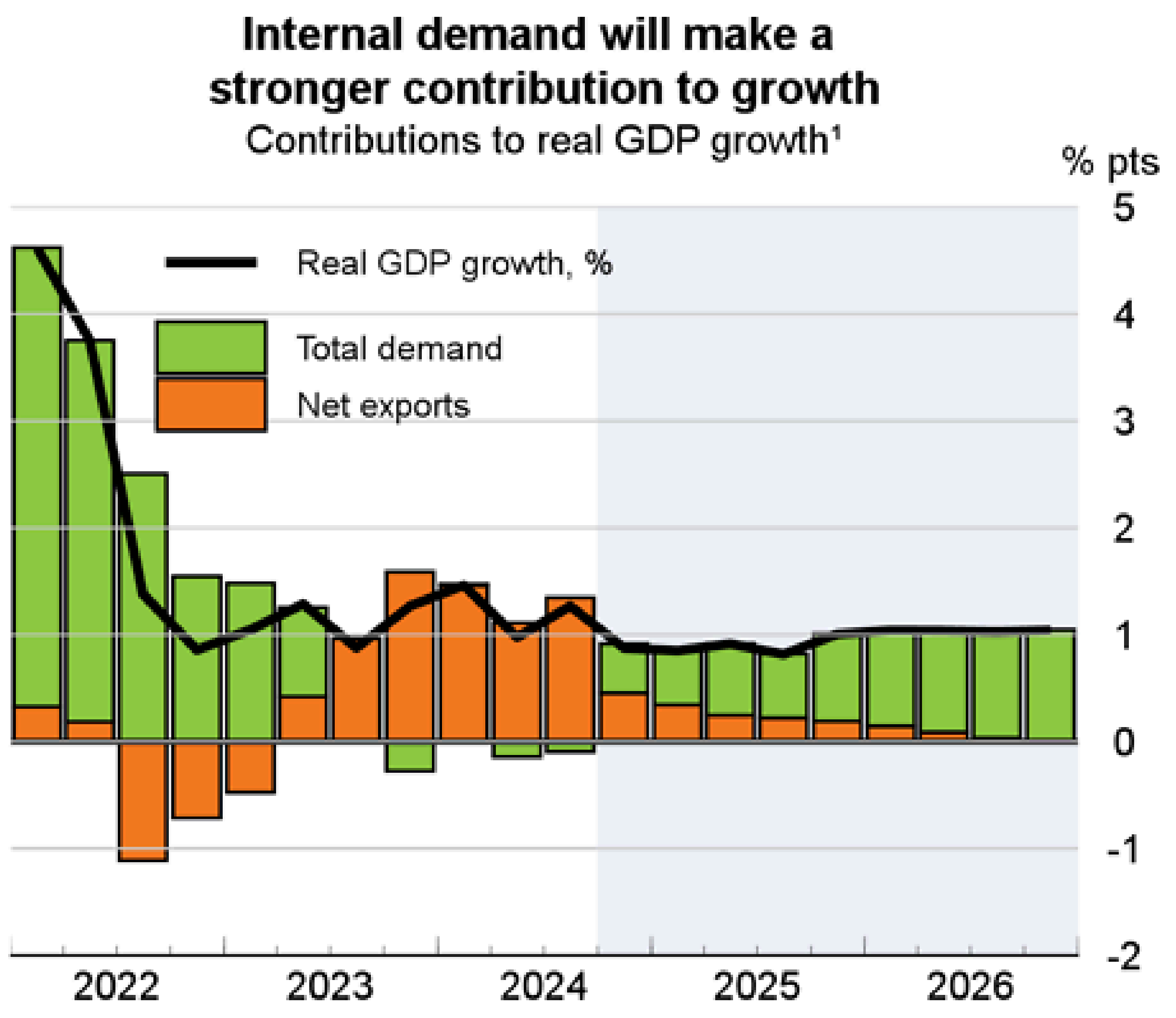
The Evolution of the French Public Debt as % of GDP (Source: Le Cercle de l'Epargne)

High public deficit: €175 billion, 5.4% of GDP in 2025 (Cour des comptes)
Rising debt: €3 482.2 billion, 117.4% of GDP in Q2 2025 (Insee)

consequences → rising interest payments on debt, reduced space for expansionary policies and increased trade-offs between social spending, public investment and deficit reduction

Household consumption and business investments





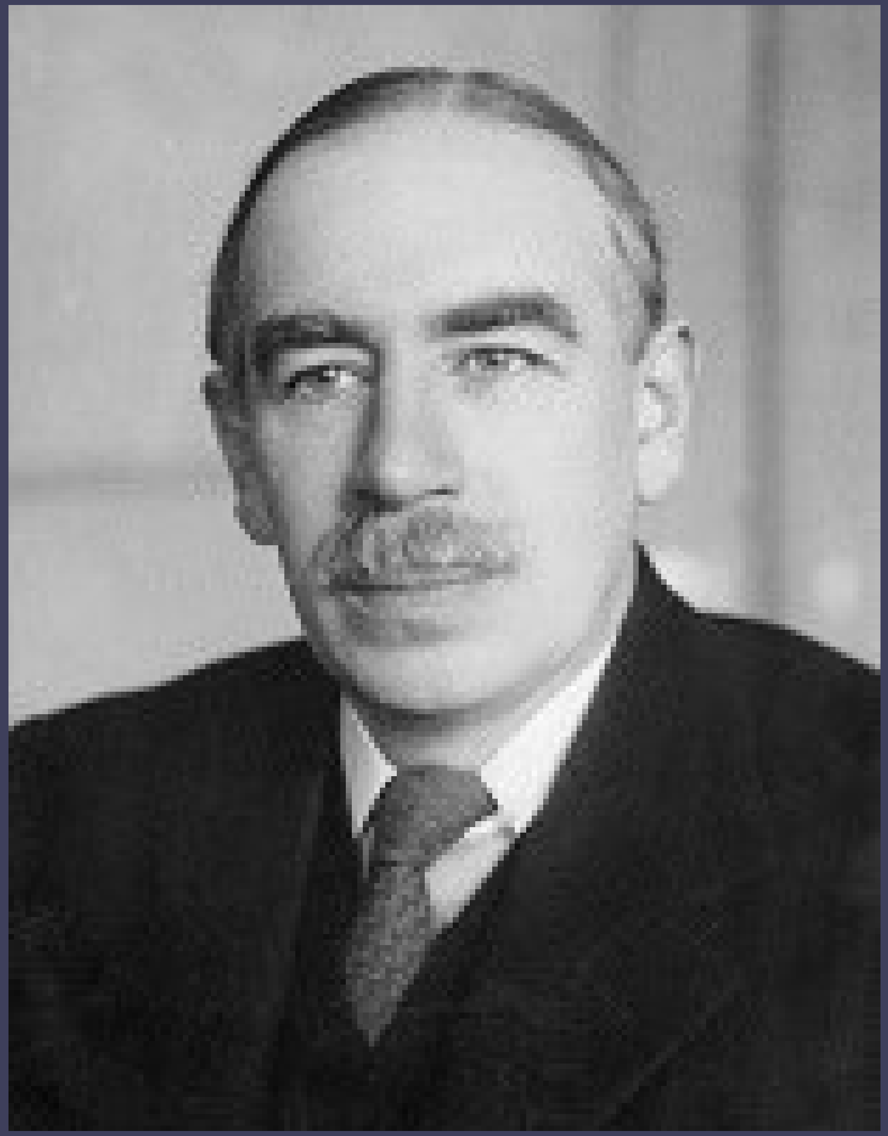
Source: OECD

Weaker consumer confidence → weaker consumption → lower expected sales → weaker private investments

Uncertain political and fiscal context

From Keynes' Perspective

Goal: stabilize the economy and achieve full employment by managing aggregate demand



Plan:

- Fighting recessions and unemployment by increasing government and/or cutting taxes to boost demand and output
- Smoothing the business cycle by adopting counter-cyclical policies
- Supporting confidence and private investment: by sustaining demand and “animal spirits” with public actions
- Avoid a “demand trap” (paradox of thrift): when everyone saves at once, demand collapses; the state needs to replace missing private demand

From Keynes' Perspective

How to increase aggregate demand (GDP) ?

$$I + G + X = S + T + M$$

$$GDP = C + I + G + (E - M)$$

Factors increasing GDP

- increasing G (high-multiplier spending)
- raising C by acting on T (targeted tax cuts)
- supporting I (stabilizing expectations and reducing risk for firms)
- designing spending to limit M leakages

Factors decreasing GDP

- big tax hikes on ordinary households (↑T)
- austerity cuts that shrink G
- encouraging "more saving" as a solution (↑S)
- Because the adjustment then happens through lower GDP (output/jobs).

What budget for France in 2026 ?

Budget 2026: trajectory

Public deficit
-5.0% of GDP

Maastricht Debt
118.2% of GDP

Tax burden
43.9% of GDP

Public spending
56.6% of GDP

Investment spending
34 bn€ (increase of 8bn€)

- No brutal austerity
- Increase in investment spending ↑G

But:
Overall restrained public spending (pro-cyclical policy)
Tax burden rises ↑T

Keynes Criticism:
spending restraint + higher T → weaker demand
→ discouraged private investment

Keynes' budget proposition

Budget 2026: trajectory

Public deficit
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Maastricht Debt
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Tax burden
43.9% of GDP

Public spending
56.6% of GDP (+0.8%)

Investment spending
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Budget 2026: proposition

Rebalance the tax burden

−€6bn
for low/middle-income households

+€6bn
financed by high-income households

Support private investment

€4bn Investment Tax Credit on temporary CAPEX
State guarantees for SME investment loans

+10bn€ in investment

€5bn for renovation and energy
€3bn for rail/local infrastructure
€2bn for training/apprenticeships

THANK YOU FOR LISTENING!

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