People's Pensions - the way to fund infrastructure spen...

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Martin Wolf stated something obvious in yesterday's FT. I've made the same point, but he made it in his own direct style that is now so effective:

Instead of such action, we get the gimmicks characteristic of all chancellors under stress. I am strongly in favour of additional spending on infrastructure. But it must be evident, even to the Treasury, that if the government borrows from pension funds to fund infrastructure, the impact on national balance sheets will be exactly the same as if the latter fund the same infrastructure directly, as is now proposed — except that the infrastructure will cost more. This is another in a line of wheezes to get round self-inflicted constraints, themselves partly reflecting ludicrous public sector accounting practices.

What we need - as I've argued for almost a decade -are pension funds set up to fund infrastructure spending in the UK. I put the case in People's Pensions in 2003 and I don't think it's changed since:

People's Pension will be backed by People's Pension Funds. These entirely new funds will be created to provide a way in which pension contributions can be invested in the building of new public infrastructure projects such as:

- *schools and universities*
- *hospitals and other health facilities*
- *transport systems (including railways, trams and bus networks)*
- *social housing*
- *sustainable energy systems*

It is not possible for pension contributions to be specifically directed in this way at present. Instead the £750 billion in UK pensions funds at present are invested in (with the proportion in each shown in brackets):

1. shares issued by private companies (71%)

2. commercial land and buildings (6%)

3. cash and bank accounts (3%)

4. UK government bonds (17%)

5. other bonds (3%)

In 1962 51% of total pension fund assets were invested in UK government bonds. In 1993 it was just 7%. The figures for 2002 quoted above reflect a move out of equities as a result of falling share prices. Even so the amount of cash in pension funds used to help public investment in the UK remains very low. This is because:

- government bonds are an investment option usually only selected by pension fund managers for those approaching retirement

- those with a choice as to where their funds are invested are usually advised against investing in government bonds on the grounds that they are "too safe to provide a useful return"

- people are normally guided towards share based investments. The degree of irrationality in this is detailed below.

The creation of People's Pension Funds would change this to create an investment model that is:

- sustainable

- secure

- rational, and

- desirable

As a result it would benefit the pension fund, the pensioner and society at large. It will also, from a national perspective, re-balance the availability of investment funds. It has been illogical that the public sector, which generates over 40% of gross domestic product, has not had direct access to pension funds, the largest source of savings cash in the UK.

But I didn't argue then, and along with Wolf I don't argue now for such funds to invest directly in the infrastructure and then let it to the government. I argued that it was up to the government to manage and run such projects and issue a bond to the pension fund to represent its investment.

And as I (and my co-authors of the time) pointed out:

What a People’s Pension Fund will never do is undertake the work of the sponsoring organisation. So, if a People’s Pension Fund was sponsored by an NHS trust to build hospitals in its area then that is what the People’s Pension Fund would do, and the contributors to the Fund would have the satisfaction of knowing that they had helped build that facility. It would not, however:

1. *provide medical services*
2. *employ medical staff*
3. *own the supply of the medical services*

All these tasks would remain firmly with the NHS. There is no element of privatisation in the proposal that is being made. In fact, if anything the reverse is true. What a People’s Pension Fund would do is demonstrate the support the public have for state provision of public services by investing in that process. And it will involve people in that process as each People’s Pension Fund will be managed democratically by its members on a mutual, not for profit basis.

I'd tweak a few bits now, but not by much. And I'd also suggest that the funds should be regional e.g a fund for East Anglia, or the North West, and so on, or maybe sector linked e.g. health or education, but the point remains: this is a cheap source of funds for the government.

But it's also something much more than that. The crisis in pensions is not in the state sector.The crisis is in the private sector, and People's Pension Funds are a way to overcome that crisis too. It's an issue I'll turn to in my next blog.