

Nothing would restore confidence in pensions more than ...

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The following article by me was published in the [Observer on 14 July 2002](#). Not that much has changed since, and my sentiment remains largely the same, which is why I have suggested dedicated government bonds to link savings to infrastructure this morning:

The problems of the pensions 'industry' have been highlighted recently as falling share prices left massive holes in the funding for thousands of pensioners. Yet all this was only to be expected.

The simple fact is that most of what people need in their old age can only be provided by people still at work. You can't store healthcare, food and leisure activities for use at a future time. So the reality of financing healthcare provision has to be based on one of two things.

Either people in work have to agree, implicitly or explicitly, to directly fund the pensions of those who are retired as part of a moral contract between the generations. Or those who are now working have to put aside part of the wealth they generate in such fashion that those who will be working when they are retired will want to buy it from them.

The first option seems to be out of fashion so the second is the one we must favour. And for reasons that have always baffled me the 'store of value' we choose to sell to the next generation is shares in quoted companies.

It is hard to think of anything more unsuited to the task. Shares are intrinsically worthless, second-hand, unenforceable property rights to a future income stream from companies run for the benefit of those who work for them now, and not for the sake of those who might be in retirement at some time in the future.

The only reason shares have gone up in price in the past has been that more people have been persuaded to buy them, either by choice or by coercion as pension funds have had little choice but to buy them.

But that game is over now. People realise the system isn't working. And when that is

the case the funds stop flowing into the market. As we have seen in property crashes, like that of 1989, when the net inflow of funds into a speculative market stops the market falls apart.

So, further request, requirement or instruction that people 'save' in share-based funds cannot solve the pension problem. Shares are the problem, not the solution. But the solution is readily available. And it happens to be extremely expedient for any politician with the will to use it. The biggest potential problem we have in our society is the lack of public spending on infrastructure. It is what people continually demand of politicians.

To date those same politicians have denied the population access to the very funds that can provide the resources the population wants, not just now but after retirement, because they've insisted people's spare cash must go into shares.

If, however, politicians thought for a moment instead of following economic dogma, they'd let that cash be used for what the current generation wants. These are things of real worth, like schools, hospitals, sewers, transport systems and so on. Quite possibly, those who built them might benefit from them in their own retirement. It is equally possible that the next generation who use them might be willing to pay what is in effect a rent to do so, and so provide an economic return for the future.

It's always been the case that long-term saving needed to be matched by long-term investment. If the government could create venture capital trusts at short notice to meet the needs of the dotcom boom, there's no doubt that if it takes this problem seriously it could create a suitable investment vehicle for this purpose as well.

Nothing would restore confidence in pensions more than people seeing their cash paying for the new hospital they'll use in old age. And we could at the same time see the back of the appalling burden of the Private Finance Initiative.

Social capital investment can provide just as much opportunity for the financial markets as the less desirable, and decidedly more fickle capital markets. All it needs is will power.