

Fiscal policy is about changing the way we run the econ...

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No one who has read this blog for a while can have much doubt as to my sentiments about much of the so-called investment market that is focussed in the City of London. In general I think that this activity is, like all gambling arenas, rigged against the players (in this case, those who save) and in favour of those who make the market. And I make no apology for describing the activity as gambling, because that is what it is, for all the air of respectability and pseudo-science in which it is wrapped.

That vast numbers of people are now forced, through near compulsory engagement in work place pensions, to contribute their earnings for others to use as stakes in this little understood process offends me considerably. Each month a mass of money is sent to the markets to buy a share of a largely fixed pool of assets and as a result prices invariably rise and so the system is designed to produce a veneer of ongoing positive returns until such time as, inevitably, the sham implicit in supposed market valuations is seen for what it is, and we have a crash. Crashes are as hardwired in as are the sham gains generated by what is, in effect, grand-scale market rigging in the intervening periods.

Add to this my distaste for opacity and an absence of accountability. Then we get tracker funds. Or, worse, the manufactured funds like ETFs (Exchange Traded Funds) and REITS (Real Estate Investment Trusts), which wrap equities and bonds inside a second vehicle which is itself quoted and charges a fee for the supposed insight that the managers supply (but rarely do) and we have an outcome that is opaque, potentially illiquid and very often downright exploitative. It is the place where the rentier goes when all else has failed.

So, HSBC is, [according to the FT](#), eyeing up 'green' ETFs as its big new investment market, even though many of the underlying assets are as likely to be green as the coal miners in FTSE4Good.

And, as another [FT article today](#) exposes, REITs do not provide solid, property back returns: they simply track stock markets with a dollop of wholly inappropriate tax relief thrown in to sweeten the return.

Such activity is part of the culture that also gave us monetary policy. As the [FT has noted today](#), monetary policy should be consigned to history and fiscal policy should replace it. I have already discussed this. But there is a dimension that I did not mention, and which the FT ignored. That is that fiscal policy demands that the tax reliefs and allowances that are effective tax spends, in that they give tax revenue away, need to be reappraised if it is to really work.

The City of London is massively tax subsidised. Over [80% of all financial assets are invested in tax incentivised arrangements](#). Pension funds dominate, but ISAs and other arrangements are also subject to tax relief for no apparent gain for society, but much for bankers. This needs to be reviewed and with it the whole logic of investment needs to be reappraised.

As Colin Hines and I argued in our report issued in December on [funding the Green New Deal](#), if tax reliefs on pension funds and ISAs were changed so that all ISA funds had to be used to buy Green New Deal bonds, issued and guaranteed by the government, and 25% of all new pension savings had to go into Green New Deal related activity, then £100 billion a year could be released for Green New Deal investment in the UK.

The stock markets would get less money.

But money would be released for real investment instead.

People would then see what their savings were creating.

And they would understand the process they were engaged in.

Whilst tax reliefs would be used for the common good.

Bubbles would be avoided.

And the government guarantee that is involved is directly equivalent to the cash deposit guarantee already supplied by the government for most ISA funds now.

This is fiscal policy at work.

And it is policy that shatters rentier capitalism by creating real investment in real assets for use by real people in the real society in which we live - rather than the make believe world of the City.

Fiscal policy is not just about changing the way we control inflation. Fiscal policy is about changing the way we run the economy, for the common good.