# Finance for the Future[1]

A new economic vision

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## Summary

The economics of neoliberalism has dominated British politics since 1979. Whether governed by the Conservatives or Labour the ideology underpinning government has been the same. The belief in Westminster has been that markets know best, the choice that markets supposedly provide to people is what they want, and that whatever the issue government is best off backing away from any solution it can think of. Instead, it should outsource the problem to 'the market' because, it has been claimed, the consequence will always be better.

The only problem with this belief is that it is clearly not true. As is very apparent, education, health and social care, justice, and much else is worse now than most of us can recall it being in earlier periods. What is more, pensions and benefits are worse and economically it is clear we are falling behind other similar nations to ourselves. Importantly, not all of that can be blamed on Brexit: the malaise is the result of the failed culture of neoliberalism that made the financial crash of 2008 and the Covid crisis so much worse in the UK than elsewhere.

Given that it was apparent after 2008 that neoliberalism was failing it would have been reasonable to expect the political parties of the left in the UK to have developed a new economic philosophy to replace it by now. That, however, has not happened. Instead, Labour accepted the blame for that crash, and has not returned to power as a result since then. And even now, when facing a deranged government that is intent on destruction there is widespread agreement that neither Labour or other parties on the left (including the SNP in Scotland) have any coherent economic alternative to offer from that which the Tories still provide. That is a massive hole in the left's electoral armoury.

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This paper suggests a new economic vision. It rejects the neoliberal idea that suggests that economic growth delivered through a faith in market solutions will answer all questions. Instead it suggests that the left must create a sustainable economy by putting all the resources available within society to best use, including those that the market fails to use to best effect.

In practice the paper argues that the greatest unused resource in our economy are people's savings. Developing an analysis based on major developments in the understanding of savings, money, the way banks operate and the behaviour of companies that have become understood in the last decade, it is suggested that cash savings stored in bank accounts now add almost no value to the economy and that companies are no longer dependent upon money raised from saving in shares for almost any of the investment that they make. As a result most of the £8.4 trillion of financial assets owned by people in the UK are not being directed towards any useful social purpose in the UK at present.

An analysis of those savings suggests that more than eighty per cent of them are saved in tax incentivised mechanisms, of which pensions and ISAs are by far the most important. Tax subsidies to these types of saving now cost almost £60 billion a year in the UK, which is more than the budget of most UK government departments, such as defence. If, however, the assets in which they save (mainly cash, shares, second-hand properties and some bonds) are not being used for the advantage of society as a whole but are instead being used to subsidise growing inequality, because almost half these reliefs go to the wealthiest ten per cent in the country, then not only is this subsidy wasted but might actually be doing harm. Because that subsidy has encouraged the over-expansion of the City of London, which captures much of this sum for its own advantage, that might be doubly true.

As a result this paper suggests that the way in which tax subsidies in the UK are given should change so that the near £700 billion now saved in ISA accounts will eventually be almost entirely redirected towards the funding of a Green New Deal whilst one quarter of all new pension contributions should be used for the same purpose. Doing so will redirect around £100 billion of savings a year to pay for the transformation of the UK economy to a sustainable basis whilst supporting full employment and the release of funds within existing budgets to deliver the public services the country wants. Because the redirection of funds does not require any new taxation, but does instead redirect existing tax reliefs, it does not add to tax demands, although the tax reliefs available to some of the wealthiest people in the UK will be reduced.

All political parties on the left require a new economic vision, and an explanation as to how they will fund it. This vision does both of those things, whilst at the same time strengthening

the inter-generational contract within the country that is essential to the long-term prosperity of all within it. In the absence of any alternative, it is the vision that this country needs now because it gives the government a new role as the intermediary between savers and investment for the overall good of society. Financial capitalism has abandoned that role. The state must take it on. In the process it can and must redirect the capital of society. No major changes in society have ever taken place without such a redirection taking place. The change implicit in this vision is now overdue. It's time for it to be delivered.

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## An economic vision

No party has won a majority in the House of Commons without an economic vision. Atlee had one. So too did Thatcher. As did Blair. Cameron's was wholly negative, and it showed. And then the economic narrative became Brexit. However, Brexit is now history, and the neoliberal narratives of Thatcher and Blair were reflections of a now failed pro-market ideology that cannot and should not be revived. So, what vision can parties of the left offer the electorate now when, as yet, it is not clear that any of them really have one?

The issues that determine whether an economic vision is credible are its framing, its objectives, the ideas that inform it and the use of resources that it proposes to deliver its aims. This note is constructed around those themes.

## Framing

First, a vision must recognise that the world is in crisis. We must change our economy to stop climate change and protect biodiversity or we have no future. To say anything else would be an irresponsible defence of the status quo.

Second, any vision must recognise that this country is crisis. This crisis has been created by austerity; the neoliberal, and wholly inappropriate, quest for balanced government budgets; disdain by government for any form of state organised activity and a false belief that the primary role of government is to empower markets. Public services and the well-being of people have been devastated because of the use of these false assumptions.

Third, the impact of the financialisation of the economy on people's lives - most obviously seen in unaffordable house prices and rents; the use of public assets and income for private gain; and in the crushing of real wages whilst profits rise - has to be tackled. The power of

financial markets to extract reward without adding value has to be curtailed to tackle the inequality and poverty it is creating.

Fourth, the funding for the change that is needed has to be found. Without it a sustainable economy cannot be created.

## The objectives

A vision has to address people's hopes and their fears. Everyone has both. The balance between them determines the public mood and in turn the priorities for an economic vision.

People might hope for a better future but the predominant public sentiment in the 2020s is fear. Those fears are of:

- insecure employment
- low pay and poverty
- a lack of long-term education
- never being able to call a place home
- ill health and the inability of the NHS to deal with it
- old age and not being cared for
- a lack of freedom to be the person people think they are
- a lack of physical security
- the loss of community
- climate change.

A vision must in that case tackle the fear that comes from relative poverty, isolation, and the fear that comes from worrying about whether we might even have a future to enjoy, let alone one that we can afford. We need freedom from fear.

## The ideas

The vision that the parties of the left need must be focussed on putting the available resources of the UK to use to meet the needs of people within the communities of the UK's countries, wherever those people are. This has not happened for more than forty years for three reasons.

First, there was Thatcher's belief that there was no such thing as government money, and that all money came from taxpayers. This has crippled the economy for forty years. Nothing has been more pernicious than this idea, with its resulting focus on austerity, balanced budgets and cuts in state services that have only ever seemed to make matters worse.

Then there was the idea that only markets could provide solutions to problems, and that the state had none. This idea has driven outsourcing, privatisation, and politicians' denial that there is anything they can really do to tackle most issues.

Finally, there was the neoliberal desire to put profit ahead of people and planet, which has driven financialisation and forced wages down whilst increasing profits. This has greatly increased inequality.

The reality is that we now know that each of these ideas has failed people, the economy and the planet. Crucially, what the left has to appreciate is that it is only new economic understanding that can explain why this is the case and then let social democracy move on from the constraints that neoliberalism has imposed on it. The core idea within neoliberalism – that finance is at the heart of the economy and that all government does is constrained by the resources that the market economy might spare to the government – has now been proved to be fundamentally untrue.

### a. Taxpayers' money

Firstly, and practically, quantitative easing (QE) has proved that there is no such thing as taxpayers' money. What QE has demonstrated is that all money is ultimately created by the government in a country like the UK and that, in extremis, neither tax nor borrowing need fund government spending. As evidence, between March 2020 and July 2021 almost £400 billion of government deficit spending was 99.5% funded with money created by the Bank of England using QE[3]. What this means is that no government can ever again say that it has no money, because it can very clearly create its own money whenever it wishes to do so. The UK government is not in that case constrained by taxes when deciding what it can do.

Nor, come to that, can financial markets have a hold over a government that is able to create its own currency when we now know that QE created money can always be used to repay the funds that those markets save in government bonds if they ever they seek to flex their muscles in opposition to government policy. Bond markets no longer do governments a favour by providing funding to government. Instead it is the government that now does bond markets a favour by providing them with a safe place to save.

[3] https://neweconomics.org/2021/10/99-5-of-government-covid-debt-has-been-matched-by-so-called-bank-of-england-money-printing

The idea that there is only taxpayer money, as Thatcher once claimed, is quite simply wrong: in fact, what we now know is that the exact opposite is true. It is government created money that a state uses to fund its activities.

### b. Banking

In addition, advances in our understanding of banking over the last decade – starting with the Bank of England's admission in 2014 that banks do not lend out the money deposited with them but do instead always create new money every time they lend[4] – even when that loan results from a person tapping their card on a payment machine – has to also be taken into account in any new economic policy because it has three consequences. The first is that we now know as a consequence that cash savings serve no useful macroeconomic purpose in the economy, despite the very heavy subsidies they get from ISA and pension tax reliefs. Second, this also makes much of the supposed purpose of the UK's banks redundant because they do not now provide an intermediation service between savers and investors.

Third, this means that a new use for cash savings must be found, since they do not have one right now and yet trillions of pounds are saved in cash in the UK at present.

### c. Stock markets

What we also now know is that many of the companies quoted on stock exchanges rarely if ever issue new shares now to fund investment. They are instead in a great many cases paying out dividends and buying back their own shares in greater amount than they have earned as profits[5]. In that case the tax reliefs provided for investment in these shares, whether via ISAs or pensions funds, also appears to be wasted government subsidy because there is no payback to society as a result in the form of new investment or job creation as a result of saving via the ownership of shares in these companies. To put this in context, ISA tax reliefs now cost around £3.7 billion a year whilst the gross cost of tax relief on current pension contributions exceeds £55 billion[6]. The combined cost, at nearly £60 billion a year exceeds the budgets for defence, personal care services, law and order, housing and the environment, transport, agriculture and employment and yet it is almost never discussed[7].

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[4] https://www.bankofengland.co.uk/quarterly-bulletin/2014/q1/money-creation-in-the-modern-economy

[5] https://www.sheffield.ac.uk/polopoly_fs/1.892482!/file/Against-Hollow-Firms.pdf

[6] See footnote 22 here https://www.taxresearch.org.uk/Blog/wp-content/uploads/2021/10/The-QuEST-for-a-Green-New-Deal.pdf

[7] Based on data from HM Treasury https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/966868/BUDGET_2021_-_web.pdf

## d. Money creation

Finally, and building on the evidence that QE provided, what we now know is that all government spending is always paid for with new Bank of England created money and never out of borrowing or taxes collected, even when QE is not involved[8]. Macroeconomists from the mainstream now agree that whatever politicians might suggest there really is what those politicians like to dismissively describe as a 'magic money tree'.

The reality is that this is what is somewhat mundanely called the government's 'Consolidated Fund'[9], which has existed since at least 1816. Expenditure from this bank account, which is maintained by the government with the Bank of England, can be made on the authority of Parliament without there ever being funds available to cover that expenditure since that Bank (which has been wholly owned by the UK government since 1946) will always advance the funds demanded from it by the government with that authority, creating new money in the process, as we now know all bank lending does[10].

As a result, for this reason, which is additional to the evidence supplied by QE, government spending is never constrained by a shortage of tax revenues in the UK, and nor can (again) the money markets hold the government to ransom by refusing to fund the government if they do not like its policies. Since we left the European Union there is also no reason why the government could not borrow directly from the Bank of England whenever it wants if that is the way it wishes to fund its spending, and we know that in April 2020 the Bank explicitly agreed that this was possible[11] [12].

## e. The financial services sector

Put these facts (for facts they are) together and they create the opportunity for a new economic vision for the left in the UK.

They suggest that austerity was wrong. More than that though, they suggest that the hold of finance on government funding has come to an end, although that is little appreciated, as yet.

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[8] See Simon Wren-Lewis https://mainlymacro.blogspot.com/2022/05/government-spending-is-not-limited-by.html and Josh Ryan-Collins https://www.newstatesman.com/economy/2022/05/why-british-state-is-magic-money-tree and here https://www.ucl.ac.uk/bartlett/public-purpose/publications/2022/may/self-financing-state-institutional-analysis

[9] https://www.parliament.uk/site-information/glossary/consolidated-fund/

[10] See https://www.bankofengland.co.uk/quarterly-bulletin/2014/q1/money-creation-in-the-modern-economy

[11] https://www.ft.com/content/664c575b-0f54-44e5-ab78-2fd30ef213cb

[12] The European Central Bank has rules preventing this, largely to preserve the integrity of the euro.

As significantly, what they show is that almost all the functions of the financial services sector, from much of banking to the role of savings institutions to pension funds, have ceased to add economic value in the economy. That is because the role that they claim to play as intermediaries between savers and investment either no longer exists (in the case of banks and savings institutions) or adds no value because the intermediated funds are not used for new investment purposes but are instead used for financial speculation which adds no additional value to the economy at large (pension funds).

The whole model of neoliberalism, and its arguments about government, fall apart as a result.

### f. Central bank independence

Two further dimensions of the macroeconomic policy framework of the past forty years must also be rethought as a result. The first of these is the neoliberal demand for central bank independence and the second is its focus on interest rate policy.

The presumption behind central bank independence is that money supply is scarce and the use of that money can be altered by changing the price of using it in the form of the interest rate charged. If, however, money is not scarce, but is instead created at will by the Bank of England and the other banks that it regulates when they make loans the whole logic of using interest rates as a penal tool to supposedly control inflation makes no sense, and nor does the role of independent central banks. That may well be why they are so dismissive of so many of the issues noted here.

### g. Interest rate policy

The role of independent central banks as the agency responsible for setting interest rates is also undermined when it is appreciated that the whole act of charging interest on money that is costless to produce and is infinitely available is, in itself, ethically questionable. The natural rate of interest should be zero per cent given these facts[13]. This claim is supported by evidence: the long-term data on interest rates created by the Bank of England does in fact suggest that their trajectory has been downward[14]. The last decade of official rates at or near zero rate is the obvious, and necessary consequence of this in the economic world that we now live in. In that case, however, there is no role for an independent central bank or for the flawed instrument of economic control that it uses, which interest rate policy is, based as it is on the false premises about the supply and cost of money. Fiscal policy has, in that case, to

[13] That does not mean that charges for administration and credit risk now wrapped up in that charge in a great many cases would not still be required

[14] Based on data here https://www.bankofengland.co.uk/quarterly-bulletin/2010/q4/the-uk-recession-in-context-what-do-three-centuries-of-data-tell-us

take monetary policy's place. We are about to learn this the hard way as central bankers impose the harm of monetary economics on the world for what has to be hoped is the last time.

## Turning ideas into a vision

An economic vision is all about a big idea. What is required now is a vision based on the actual economics of the 21st century, as noted above, which:

- delivers a sustainable future for people, free from fear
- tackles the underlying issues that created that fear
- does so with limited risk of inflation
- saves our planet from the threats that it faces.

*To achieve this it has to be understood that the government's role in the economy is not to be the obedient servant of markets, whose whims it must obey, but to determine what needs to be done within the limits of sustainable resources and to then ensure that these things happen, whilst allowing room for the private sector to operate within the grand scheme of meeting need.*

## The new role of government

To do this though requires new thinking, and the biggest single idea within that required new thinking is that the government must take on a new role for itself in the economy in addition to those it already does. That new job is to be the intermediary between savers and investors, directing how the £15 trillion financial wealth of the UK might be used to build the economy that we need when, as I have noted, this task is no longer undertaken in any meaningful way by the financial markets and as a result *almost all the savings of people in this country are now either stored to no useful economic effect (in the case of cash savings) or are used for financial or property speculation (in the case of stock exchange savings).* It is the liberation of these funds that will be the basis of the capital transformation of society that the left must achieve, in the way that no transformation of society has happened without the use of its capital changing.

## The UK's savings

The UK is a rich country. It has national wealth of at least £15 trillion. According to the Office for National Statistics this was split as follows in 2020 (the most recent data available)[15] [16]:

| | Total wealth £'billions | % of total wealth | % of total wealth excluding property | % of total wealth excluding all physical wealth |
|---|---|---|---|---|
| Property Wealth (net) | 5,458 | 35.9% | | |
| Financial Wealth (net) (non ISA) | 1,313 | 8.6% | 13.4% | 15.7% |
| Financial Wealth (ISA) | 620 | 4.1% | 6.4% | 7.4% |
| Physical Wealth | 1,385 | 9.1% | 14.2% | |
| Private Pension Wealth | 6,445 | 42.3% | 66.0% | 76.9% |
| **Total Wealth** | 15,221 | 100.0% | 100.0% | 100.0% |
| **Tax incentivised** | | 82.3% | 72.4% | 84.3% |

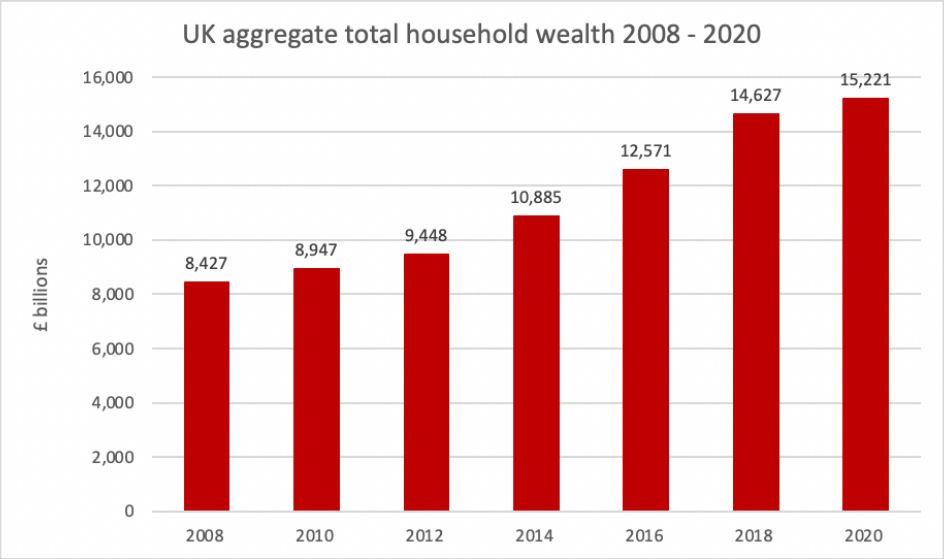
Of total wealth 45 per cent (£6,843 billion) is physical, although much of this (property) is tax incentivised because domestic homes, rental properties and commercial buildings all enjoy tax reliefs that encourage their ownership.

As is noted in the table, a total of 84.3 per cent of financial wealth, totalling £8,378 billion in all, is held in directly tax incentivised assets whether in the form of ISAs or pensions, which ratio is remarkably like the total value of wealth in tax incentivised assets when property is also considered. It seems certain that tax incentives do therefore have a considerable influence over the way in which wealth is saved by those who own it.

[15] https://www.ons.gov.uk/peoplepopulationandcommunity/personalandhouseholdfinances/incomeandwealth/bulletins/totalwealthingreatbritain/april2018tomarch2020#total-net-wealth

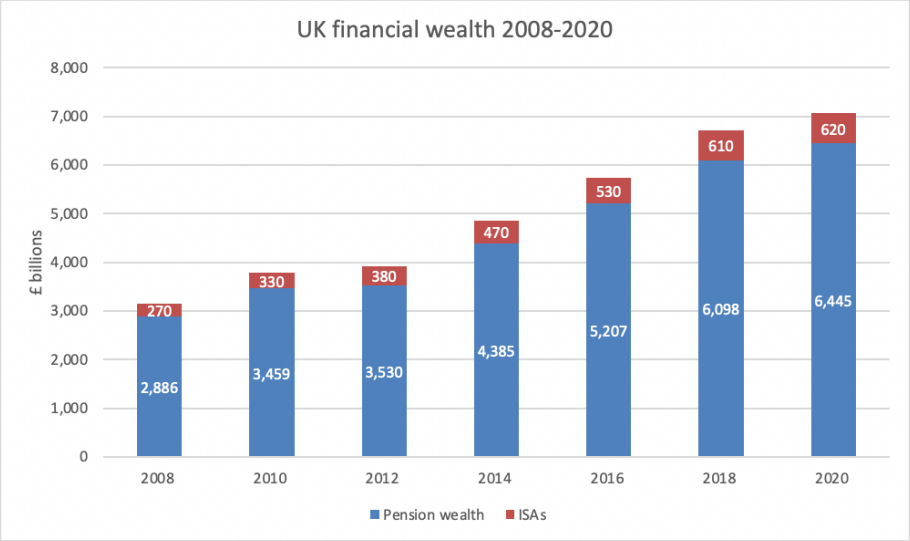
[16] ISA data from https://www.gov.uk/government/statistics/annual-savings-statistics/commentary-for-annual-savings-statistics-june-2021

These figures must be read in the context of total UK wealth, which has grown considerably since 2008[17]:




Average UK wealth per adult person now exceeds £280,000[18].

So too has financial wealth grown:

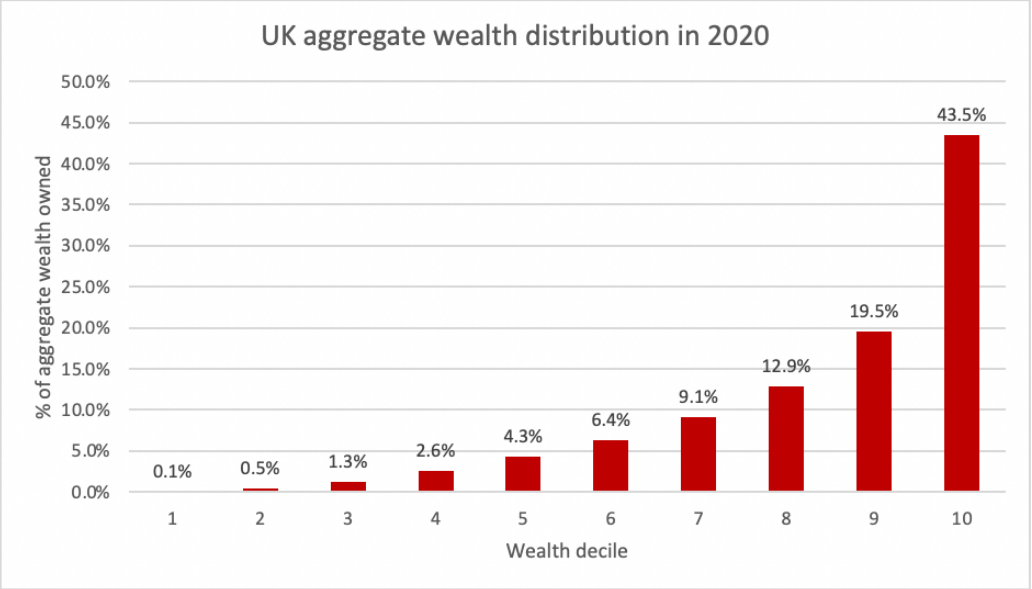



17 https://www.ons.gov.uk/peoplepopulationandcommunity/personalandhouseholdfinances/incomeandwealth/datasets/totalwealthwealthingreatbritain

18 Based on a UK population of 67,081,000 https://www.ons.gov.uk/peoplepopulationandcommunity/populationandmigration/populationestimates and 81% being over 16 in age

It is notable that tax incentivised financial wealth more than doubled over this period.

However, the distribution of wealth in the UK is unequal:




As a result, the allocation of the tax subsidies provided for savings is also unequal, as this table shows[19]:

| Decile | Cost of pension subsidy for the decile | Cost of pension subsidy for the decile | Total cost of tax subsidy for savings for the decile | Percentage of total subsidy allocated to the decile |
|---|---|---|---|---|
| | £'bn | £'bn | £'bn | |
| 1 | 34 | -23 | 11 | 0.0% |
| 2 | 159 | 2 | 161 | 0.3% |
| 3 | 551 | 18 | 570 | 1.0% |
| 4 | 1,137 | 39 | 1,175 | 2.0% |
| 5 | 1,701 | 91 | 1,793 | 3.1% |
| 6 | 2,629 | 138 | 2,767 | 4.7% |
| 7 | 4,388 | 241 | 4,629 | 7.9% |
| 8 | 6,643 | 363 | 7,006 | 11.9% |
| 9 | 11,487 | 660 | 12,147 | 20.7% |
| 10 | 26,270 | 2,171 | 28,441 | 48.5% |
| Total | 55,000 | 3,700 | 58,700 | 100.0% |

[19] The actual figures may be worse than this: the estimated allocation does not allow for the impact of varying tax rates that will overly allocated subsidy to those in higher deciles

*The current annual pension and ISA subsidy to the top ten per cent of the UK population, who have average wealth exceeding £1.2 million each, exceeds £28 billion a year, or an average of around £5,200 each, per annum. Not only is the allocation of wealth within the UK unfair, so too are the subsidies to it, most especially when there is no return to society from those subsidies. Neoliberalism has worked well for a few, but most definitely not for the many, or society as a whole.*

What can be done about this?

What the left has to do now is four things. First, it has to say that this market failure exists. The financial services sector, from banks, to pensions funds, to stock exchanges, to property investment funds are taking in savings for which they no longer have any apparent use and are in some cases paying almost no return at all (as is the case on cash) or are financial engineering returns that may well not really exist (most especially on shares and related savings products)[20].

Second, they have to say that if people still want to save in these ways that is quite acceptable, but that tax relief to encourage people to do so will no longer be available or will, at the very least, be greatly restricted. The left should make it clear that it has no problem with people saving, but there is no reason for the state to subsidise those who want do so when, by definition, the vast majority who save already have the capacity to do so, irrespective of any tax relief provided. The state should not be subsidising growing inequality, which is what these subsidies are doing at present.

Third, that said, the left must recognise the significance of tax reliefs to savers because about 82 per cent of all assets are saved in structures that attract tax relief. As such the power of the state to direct the allocation of savings using taxation reliefs and allowances has to be acknowledged to be significant, and this makes it a powerful policy instrument.

Fourth, the obvious conclusion that follows is that given that people want to save for their own good and appropriate reasons – whatever the current economic consequences might be – then the conditions to be attached to tax reliefs for savers should be changed so that the goal of there being simultaneous public and private gain from doing so is restored.

*This restoration of the constructive use of savings should be at the heart of a new economic vision for the left. The object is to release the power of saved funds for the benefit of society,*

[20] See https://productivityinsightsnetwork.co.uk/app/uploads/2021/06/PIN-Report-29-6-21-FINAL.pdf

*which it has not been doing for decades, which is the reason why we have simultaneously suffered economic stagnation whilst apparently enjoying rising wealth.*

*In the process we do something else, which is to restore the fundamental pension contract that should exist within any society. This is that one generation, the older one, will through its own efforts create capital assets and infrastructure in both the state and private sectors that the following younger generation can use in the course of their work. In exchange for their subsequent use of these assets for their own benefit that succeeding younger generation will, in effect, meet the income needs of the older generation when they are in retirement. Unless this fundamental compact that underpins all pensions is honoured any pension system will fail.*

*This compact is ignored in the existing pension system that does not even recognise that it exists. Our state subsidised saving for pensions makes no link between that activity and the necessary investment in new capital goods, infrastructure, job creation and skills that we need as a country. As a result state subsidy is being given with no return to the state appearing to arise as a consequence, precisely because this is a subsidy for saving which does not generate any new wealth. This is the fundamental economic problem and malaise in our current pension arrangement.*

## The new conditions for savings tax relief

What are the conditions to be attached to tax relief for savers and how should the resulting savings mechanisms be structured? To answer requires consideration of these issues:

- What is it that must be invested in now?
- What reliefs are required to encourage that investment?
- What mechanisms are required to direct the capital required for that investment?
- Who can best run those mechanisms?

These will be dealt with in turn.

### 1. What is it that must be invested in now?

It has already been noted that lending is now providing all the capital that is required by the private sector to enable the investment that is desires. This does not involve the use of money deposited with banks. Nor does it require the issue of new shares. New property investment and property purchase and sales are also loan financed. In that case it is reasonable to assume that the private sector currently has little, if any, need for new capital from savers since it is not using that which is already available. Therefore, it is appropriate to presume that it is the

state sector that is in need of the new capital provided by savers that the left might wish to put to use.

The obvious uses for new capital investment within the state sector include the creation of:

- New social housing
- New sustainable energy generation systems
- New energy efficiency systems, including in public and private housing
- Sustainable transport systems
- The renovation of many existing public buildings to make the energy efficient and sustainable
- R & D into:
    - New food production systems
    - Reduction in food waste
    - Alternative energy systems
- The support mechanisms for society, most especially in health and publicly provided social care, whether at home or in residential provision
- Education and related facilities to support all these programmes

There will, inevitably, be political choices to be made about what takes priority, when, and where. There cannot be a fixed agenda for this programme, and local influence and often control will be an essential part of it. However, few would dispute the need for this investment as a matter of social priority.

2. What reliefs are required to encourage that investment?

The key reliefs that are provided by existing savings structures are:

- From income tax and capital gains tax in ISAs
- From income tax and national insurance on capital contributed to pensions schemes, very partially and eventually compensated for by potential taxation (but national insurance charges) on pensions when paid
- Tax free accumulation of savings within pension funds
- Corporation tax relief for pension contributions paid by employers on their employees' behalf.

No other reliefs are significant, although some now exist, including with regard to inheritance tax.

There is no reason why the nature of these reliefs should fundamentally change if ISA and pension fund savings are to be wholly or partly applied for social purposes. However, to prevent the obvious contribution to inequality that these reliefs are creating at present caps should be applied to the amounts that might be saved:

- Savings made into ISA accounts should be capped at £100,000, with this limit subject to occasional review;
- Pension tax reliefs should only be available at the basic rate of income tax and should be subject to a lifetime contribution cap by employers and employees of £1,000,000.

These reliefs do, however, need to be associated with the social goal of the intended investment. These vary depending on whether ISAs or pension accounts are considered.

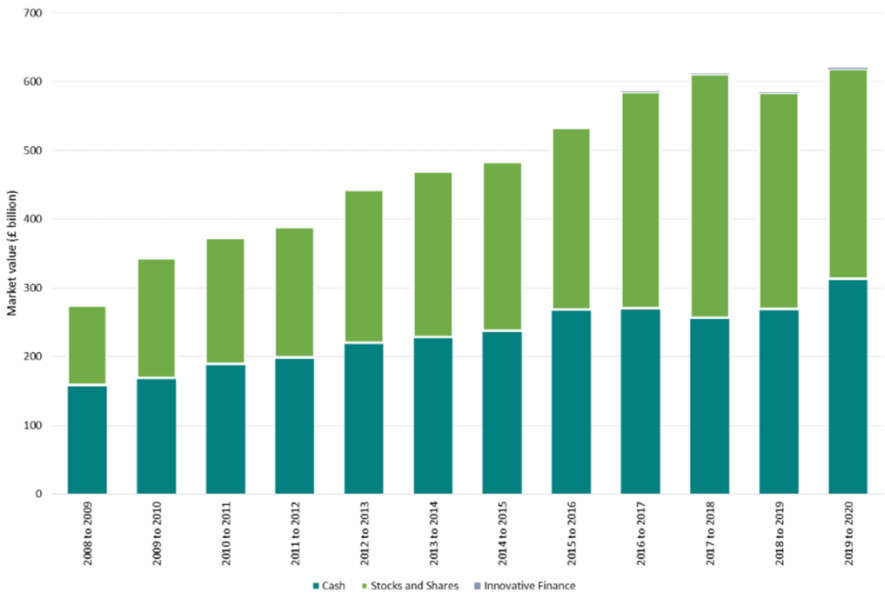
ISA accounts currently provide the opportunity for savers to place their funds in cash or share based accounts. Since there is almost no obvious link between financial services industry created share-based collective savings accounts like unit trusts and actual investment in the real economy there seems to be no reason to retain the option of share-based saving within ISAs, most of which is currently based on the use of such collective schemes. These types of savings provide no obvious social advantage for the cost of the tax relief provided.

Instead, all future ISA savings accounts should be cash based. This is not a major issue: a majority of ISA funds are cash based at present, with a little over £300 billion of the total £600 billion saved in ISA accounts now being cash[21]. It is likely that many share based accounts would be moved to a cash basis to keep ISA reliefs.

From the perspective of using these savings to fund investments, whilst there is a churn in accounts, with about £60 billion of savings a year currently flowing into adult ISAs, and rather more into all types of ISA (all of which would be merged under the proposals made here), it is notable that the sums invested have never fallen significantly:

[21] https://www.gov.uk/government/statistics/annual-savings-statistics/commentary-for-annual-savings-statistics-june-2021

Market value of adult ISAs[22]




There is then a reliable source of capital within these funds, although very low rates of interest are often paid[23].

## 3. The objectives for new ISA accounts

The aim for a new socially biased form of ISA would then be to offer a form of cash saving within an ISA that attracts investors, delivers significant sums for investment in socially useful projects and which can be seen to be of social advantage. This can be achieved by offering fixed term savings accounts (or as many banks and building societies call them, bonds) within an ISA structure requiring that the saver lock up their funds for a period of between one and ten years (with a bias to periods of around 3 years, using the interest rates offered to achieve this) with significant disincentives for withdrawing funds early, although no ban on doing so, and with the interest rate paid being very competitive with those available in the savings market to ensure a significant flow of funds into these accounts, diverting funds from socially useless cash savings in banks as a result.

The existing National Savings and Investments structure is entirely suited for this purpose, but there should be no reason why these bonds should not also be available through High Street banks and building societies, who could earn a small commission for handling them. Widespread availability could be guaranteed as a result.

[22] https://www.gov.uk/government/statistics/annual-savings-statistics/commentary-for-annual-savings-statistics-june-2021

[23] https://blog.moneysavingexpert.com/2022/04/martin-lewis-ditch-cash-isa/

The funds saved should be used to buy bonds issued by a National Investment Bank. There should be separate banks for each country within the UK Union. This Bank would be owned by the UK government in the case of England and by the devolved country governments in each other member of the Union. The banks should be independent of the Bank of England as they have a quite different purpose.

These National Investment Banks should issue bonds to broadly match the portfolio of investments that they intend to make. There should, for example, be bonds to finance investment in:

- Tackling climate change
- Housing
- Education
- Health
- Transport

It might also be possible to bundle bonds to reflect the likely portfolio of investment in a region so that a person might save in bonds investing in the area where they live instead of opting for themed investments.

There should also be generic bonds available, and for many these will meet their need. They could be used for any purpose, breaking the link with hypothecation within the proposed structure and also preventing richer areas securing disproportionate funding.

These bond structures should be matched in the marketing of the bonds to customers of National Savings and Investments. The intention is deliberate. It is to create an association between the saver and the assets that they are helping fund. Annual reports on investment activity should reinforce this link.

The National Investment Bank would invest in projects that are predominately in the public sector, although private sector activity, particularly with regard to research and development, should not be excluded. The focus should always be on the economic transformation required to meet the challenges of climate change undertaken in ways that maximise value added within the UK economy.

The National Investment Banks might largely replace existing government funding for these investment activities, taking this activity outside the conventional range of funding used to date. This would not, however, reduce the scale of government spending in an economy where little need is properly met on a timely basis and the shortage of investment has become chronic. Instead, this programme will free funds used to date for investment

purposes for other uses. As such there is a deliberate economic stimulus inherent within this programme. If that proved to be inflationary it is suggested that alternative fiscal policies such as progressive taxation be used to tackle this issue.

The bonds issued by the National Investment Bank, which will have interest paid on them at a rate very similar to that offered to ISA savers, might appear to increase the government's cost of borrowing, but given that the rates of interest paid on cash saving tend to be lower than that paid on average on government bonds this is not a significant issue, and the risk is considerably smaller than that implicit in the index linked bonds issued by HM Treasury, for example.

Presuming that truly competitive interest rates were paid it is expected that this policy might easily match current ISA inflows each year an attract between £60 and £70 billion per annum for investment purposes.

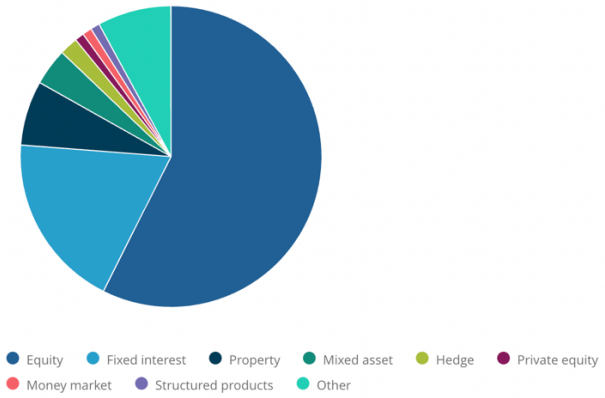
## 4. The objectives for pension tax relief reform

Important as the sum to be raised from ISAs might be, and as relatively cheap as it might be to divert those sums to social purpose, most tax reliefs for saving in the UK go to those investing in pension funds.

The investment of these funds varies depending on the type of fund of which a person is a member (NB: the following analysis does not include personal pension funds for which data does not appear to be available). The investment mix of public sector funds, is according to the Office for National Statistics[24] as follows:

[24] https://www.ons.gov.uk/economy/investmentspensionsandtrusts/articles/ukpensionsurveys/redevelopmentand2019results

**Asset classes held in pooled vehicles by public sector DBH schemes, UK, end-2019**

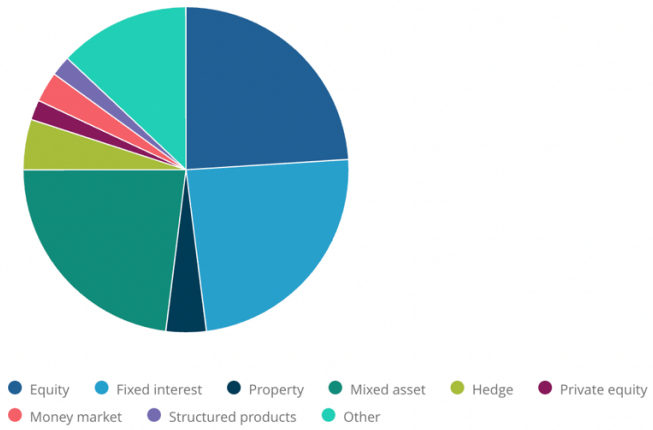



**Source: Office for National Statistics – Financial Survey of Pension Schemes**

DBH stands for defined benefit[25] and hybrid schemes, i.e. this includes some defined contribution schemes.

In the private sector the same DBH schemes have a very different investment profile:

**Asset classes held in pooled vehicles by private sector DBH schemes, UK, end-2019**

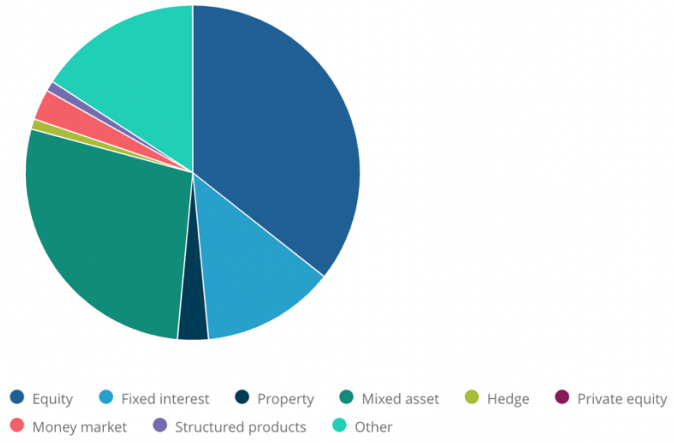



**Source: Office for National Statistics – Financial Survey of Pension Schemes**

[25] A defined benefit pension scheme means that the pension fund member gets a pre-determined pension based on something other than pension fund performance e.g. a fixed proportion of their salary for the years that they worked for an employer.

However, in the case of what are called defined contribution schemes, where no pay-out from the fund is guaranteed and the pension paid is entirely dependent upon the performance of the pension fund's investments, the investment profile is different again:

**Asset classes held in pooled vehicles by private sector DC schemes, UK, end-2019**




**Source: Office for National Statistics – Financial Survey of Pension Schemes**

The ratios vary, but what is true is that in all cases significant fixed interest debt (much of which is government debt according to the Office for National Statistics) is held by these pension funds. This means that pension funds might want to hold the types of National Investment Bank bonds already described with regard to ISAs. Bonds of this type would be fixed interest debt for pension purposes.

The reason to do so might increase as pressure on pension funds to prove their climate credentials grows. In 2018 a study found that the US based S&P 500 index had global warming of 4.9°C implicit within it and the MSCI World Equity Index was worse, with 5°C global warming implicit within the behaviour of the companies making it up[26]. These levels of change are, of course, unsustainable if we are to meet climate targets and do suggest that significant change in the behaviour of companies in whom pension funds invest is urgently required. The option of saving in ways that does not involve the ownership of such shares is one way to address this issue for the ethically concerned pension saver.

Taking these factors into account we suggest a different change to the tax relief applying to pension fund contributions. Our suggestion is that in exchange for the tax relief offered on

[26] See https://www.mirova.com/sites/default/files/2019-05/EstimatingPortfolioCoherenceWithClimateScenarios2018_0.pdf

all pension investment, at least 25% of all new pension fund contributions (but, we stress, not existing pension funds) should be invested in assets that:

- Create new economic activity substantially within the UK economy;
- Are related to the climate transition.

The portfolio of assets available within green ISAs would by default meet this criterion, but a new taxonomy of green investment for use in the UK is being prepared[27] and this could provide the basis for appraisal of investments that might meet the second of these pension related conditions.

It is important to note that the first of the conditions would need to be proved on a case-by-case basis. Penalties, such as lost tax relief applying to the fund as a whole, would be due if it could not prove that these conditions were met. As a consequence it is likely that products of the ISA type already proposed, or gilts issued on a similar basis designed to meet this demand, would be the basis for most of this element of pension saving in the future. This is possible without upsetting the balance of fixed interest bond holdings within most portfolios.

Estimating the precise amount invested in pension funds each year is hard because of the variety of funds that exist but it seems likely that at least £30 billion a year is invested by individuals, more than £15 billion a year is saved by those now encouraged to make minimum contributions a year by law, and that more than £50 billion a year is contributed via other employer schemes, with a combined annual contribution likely to exceed £100 billion a year as a result. The cost of the range of tax reliefs on these contributions – at more than £54 billion a year – shows how generously they are subsidised by income tax, national insurance and corporation tax reliefs. In that circumstance the suggested conditions to be applied to future pension contributions appear entirely reasonable and should help the rebalancing of share portfolios. At least £25 billion might be available for new investment as a result of the proposal made here, which in combination with likely ISA saving brings the likely total funds available for investment in new economic activity as a result of these changes in savings rules to between £85 and £100 billion a year, which is likely to be as much as the economy can absorb, whilst representing more than 4 per cent of UK GDP a year, which is sufficient to radically transform our economic well-being.

## To conclude

This vision is about putting people to work to create the UK as it must be if it is to manage the climate transition that any responsible government must face. Investment has to be at

[27] The EU has such a taxonomy but as a result of Brexit the UK is now creating its own.

the heart of that new economic vision. This vision explains how that investment could be funded. It does, however, do something much more than that.

This is a vision to replace neoliberalism. That whole economic philosophy can be summarised in a sentence: *Neoliberalism offers economic growth through a faith in market solutions*.

This vision can also be summarised in a sentence: *The left wants to create a sustainable economy by putting all the resources available within society to best use, including those that the market fails to use to best effect.*

Savings are at present almost wholly unused for the purpose of delivering economic gain in our economy. They are instead exploited by financial capitalism, with a resulting risk being created that the whole fundamental pension contract in the UK might fail. This plan intends to change that.

In the process the vision suggests how to find maybe £100 billion of funding for a Green New Deal for the UK, to be managed to meet the needs of each of the countries within the Union. Importantly, it does not stress the public finances as a result: much of the necessary funding comes from the redirection of the inappropriately used subsidies to savings and investments currently available in this country whose primary role at present is to increase inequality and whose secondary function is to fuel the excesses of the City of London.

As a result of putting this vision into place we could deliver full employment, and with the resulting taxes arising manage the funding of the proper public services that we need without ever over-heating the economy.

It so happens that some other objectives of the left will be delivered at the same time. In particular, we should have a less unequal country. We will also be a country that knows where it is going, which is something that has been unknown to most of us for a very long time.

That is a big claim. But a big claim is what the left needs right now. More than that, it is what the country requires right now when it so obvious that neoliberalism has failed.

The left has to escape from the clutches of neoliberalism. This is vision of how it might do that.

## Appendix 1

## Lending long, borrowing short

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UK banking institutions, whether they be banks, building societies or credit have tended to undertake what looks to be a superficially risky form of lending operation. These institutions tend to 'borrow short' and then 'lend long'. What this means, and why it is not nearly as risky as it might seem to be, needs to be explained if the risk that many people might think exists within the type of ISA structure that this proposal suggests is to be explained.

### Borrowing short

'Borrowing short' refers to the fact that most bank, building society and credit union deposits are in accounts that the person saving can get access to relatively quickly. Some, like current accounts, are repayable whenever the customer demands. Others, like many deposit and bond accounts, are subject to notice of withdrawal or are made for fixed durations, but these notice periods often vary between periods as short as 30 days to maybe two or three years. In other words, most deposits are at least in theory repayable in the relatively short term.

### Lending long

Borrowing short would not create risk for any financial institution if it also lent short i.e. the funds it lent out were repayable at on demand or at short notice by those to whom they lent them. Overdrafts are loans of this type, but they are unusual precisely because they are repayable on demand.

The vast majority of bank, building society and even credit union lending is for longer terms than those common in their deposit offerings. For example, many car loans and other types of funding to acquire domestic or other equipment are for periods of at least three years. Loans to buy property ('mortgages' as they are commonly called) are often for periods of 25 years or more. The lending of most of these organisations is, then, for very much longer periods than those for which savers are willing to commit their funds to any institution. This will be true for the ISA funds referred to in this note.

### How does borrowing short and lending long work?

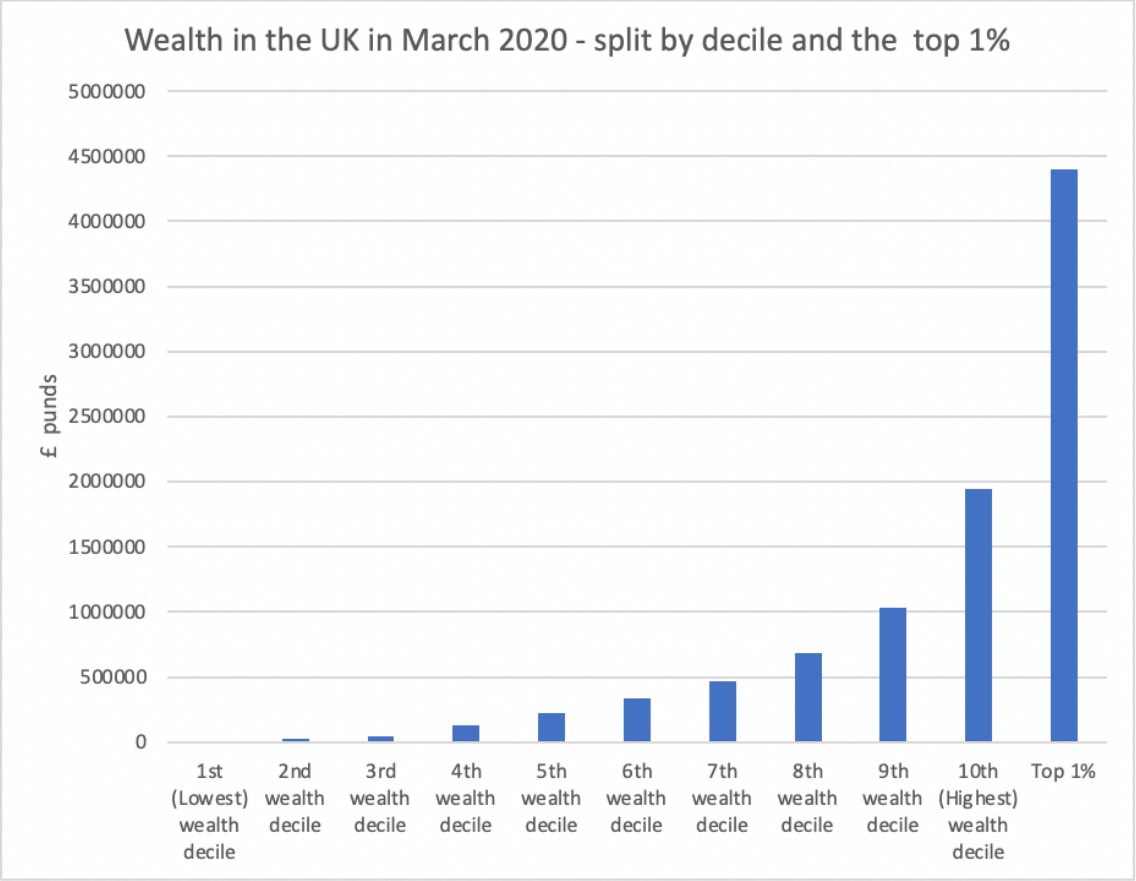
For technical reasons banks are not as constrained by this problem as are proper building societies and commercial unions. The reasons are complex and need not be discussed in detail here but refer to the fact that technically banks do not lend out depositors' funds when

marking loans, unlike building societies and credit unions, which do make loans out of funds deposited with them, as most people imagine is the case for banks as well.

It would be thought that building societies and credit unions might face real problems with lending long in that case, but in reality that is not a problem in the vast majority of cases.

The reason for this is that there are very many more borrowers in the UK than there are savers, and those who save tend to do so for the long term, even if they do not commit their funds to any account for nearly as long as they tend to hold their money.

If the UK population is split into ten groups, each of which has, on average, the same wealth, each such group has the following average wealth:




Source: Office for National Statistics[28]

28 https://www.ons.gov.uk/peoplepopulationandcommunity/personalandhouseholdfinances/incomeandwealth/bulletins/totalwealthingreatbritain/april2018tomarch2020

Note that the top 1% are shown separately but data for them is also included in the data for the top 10% as well, indicating by how much they skew the averages at the top of this distribution.

The same data is portrayed slightly differently in this table:

| | Total | Financial assets | Pensions |
|---|---|---|---|
| | £ | £ | £ |
| 1st (Lowest) wealth decile | 8,000 | - | - |
| 2nd wealth decile | 23,000 | 500 | 2,500 |
| 3rd wealth decile | 47,300 | 1,000 | 15,800 |
| 4th wealth decile | 129,200 | 2,000 | 38,200 |
| 5th wealth decile | 222,200 | 6,800 | 56,700 |
| 6th wealth decile | 339,600 | 12,900 | 97,600 |
| 7th wealth decile | 470,300 | 22,900 | 180,400 |
| 8th wealth decile | 685,500 | 41,800 | 292,700 |
| 9th wealth decile | 1,031,200 | 79,500 | 520,200 |
| 10th (Highest) wealth decile | 1,941,300 | 201,000 | 1,035,100 |
| Top 1% | 4,403,500 | 779,400 | 2,046,700 |

Total wealth, as plotted in the previous chart, is noted in the first column. The second column does, in effect, represent non-pension savings, and the final column represents the average value of pension funds for each decile group.

As is apparent, the top 10% of wealth owners within society own vastly more than all other groups within it. The total household savings of the bottom 90% of the wealth distribution do, in fact, own £167,400 of wealth per household between them whilst, as will be noted, the top decile own an average of £201,000 of financial assets per household, with the top 1% having £779,000 per household.

It is, as a result, the fact that the wealthy have more to save than they can possibly need to use in the short term that solves the conundrum of borrowing short and lending long. Although in theory depositors can withdraw their money from savings accounts, in practise they do not do so in aggregate because most wealthy savers have no immediate use for the money that they save and so leave it on deposit in the long term even if that is not required by the account in which the sum is saved.