Funding the Future

The wealthiest 10% in the UK get at least £30bn a year...

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I published this thread on Twitter this morning:

The government has just published new data on the cost of UK tax reliefs, which is the money given away by the government because some things are not taxable or because costs can be offset against income. Tax reliefs on savings are going to cost £59 billion this year. A thread...

To summarise the data on the tax cost of subsidising UK savers last year and this year (2022/23) I have prepared this table:

Tax year	2021/22 £'bn	2022/23 £'bn
Income tax cost of pension tax relief	26.9	27
National insurance cost of pension tax relief	24.7	27.8
Cost of pension tax reliefs	51.6	54.8
Cost of ISA tax relief	3.6	4.3
Total cost of savings tax reliefs	55.2	59.1

For those looking for the source data on this issue, the data is available here.

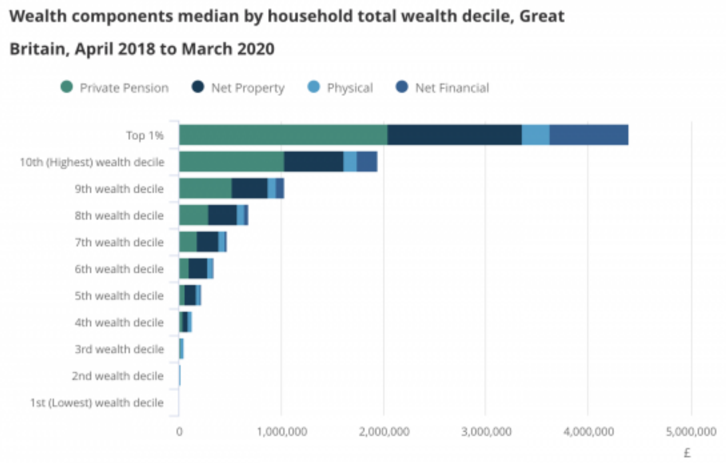
To put this in context I have prepared the following table showing the number of months spending on other essential services that could be covered by the spending made on subsidising the savings of the wealthy:

Tax subsidy - equivalent costs in 2022/23

	Number of months covered by the cost of

Now let's ask why we need to spend £59 billion a year subsidising savings, who gets the relief, and what we as a society get in exchange for that tax not collected, and what we should expect.

The first thing to note is who gets these tax reliefs. The best data on this comes from the Office for National Statistics and shows the distribution of wealth in the UK, including how much of it is made up by having pension savings. The data is from here.



The obvious evidence from this chart is that the vast majority of pension wealth is owned by those in the top 10% of the income strata, with most if the rest spread over the next couple of deciles. The evidence is unambiguous: most of this subsidy is going to the wealthy.

In fact, based on the ONS wealth data it is likely that 46% of all pension tax reliefs go to the top 10% income group.

Then allowing for the fact that this group are likely to get tax relief on their pension contributions at the 40% tax rate when most others get it at 20% the wealthiest people in the UK almost certainly enjoy a subsidy for their pension contributions exceeding £30 billion year.

Let's be clear what that means: the subsidy given to the savings of the wealthiest people in the UK is enough to pay for the NHS for more than 9 weeks each year or to pay for education for twenty weeks a year.

The obvious question to ask is why should a group already so privileged in wealth and income terms get such an enormous, and utterly disproportionate subsidy from the state, given at a rate denied to most of the UK population?

When we know that there is supposedly a desperate shortage of funding for public services why are we subsidising the wealthy to get ever more wealthy instead of supplying the health, education and other services that we need?

And let’s be clear that society gets almost nothing in exchange for this subsidy. Firstly, that’s because most of those who get the subsidy will save anyway: they have more than enough to live on so they will save anyway. The subsidy does not change their behaviour.

Of course there may be benefit to supporting the saving of those who might not otherwise save. But a subsidy on savings of no more than £5,000 a year at the 20% tax rate might be more than enough to achieve this.

Make this one simple change and almost all the wasted subsidy would be reclaimed. And, I stress, the subsidy is very largely washed because of the way in which pension funds are saved.

Pensions save in cash, shares, bonds (government and private company versions), in property and in little else. Cash just withdraws resources for use in society and delivers no net useful gain to an economy.

Saving in cash may be totally personally rational, but from a macroeconomic perspective, from which the government must view this activity, cash savings in banks do nothing to aid economic activity in the economy.

Investing in shares is much the same. Almost no company now issues shares to support its trading activity. Any new shares are issued in mergers and acquisitions. Most companies are actively buying share back to inflate their prices.

So, almost all shares in issue provide no new funds to promote real investment in the economy. Buying them is just gambling in financial markets by any other name.

Bonds make more sense, except governments do not need them to fund their activities, as quantitative easing proved. So they too are just savings mechanisms. And whilst corporate bonds can fund investment, most fund mergers.

So what is the social advantage of saving in pensions and ISAs? Next to nothing at all. No new economic activity is created in most cases, excepting in the ruinous and value extracting activities of the City of London. Its parasitical activity is dependent on these subsidies.

There is then at present no justification for these massive subsidies. They increase inequality. They divide society. The only business activity to gain is in the City, and that adds no value, and almost no real investment in the economy results from pension and ISA saving.

Despite this, my research with Prof Andrew Baker, also at the University of Sheffield, has shown that more than 80% of financial wealth is in accounts of this sort. That’s disastrous for the UK because it means it harder to find funding for the real economic activity we need.

So what can be done? Three options. First, massively cut the reliefs in the way I have suggested. Cap relief to 20% on £5,000 or so of pension contribution a year: few lower paid people make more. I could be persuaded, maybe, to go to 10%.

I stress, I would let existing funds survive: I am not in favour of retrospective reforms for past contributions.

Then scrap ISAs unless they are reformed. ISA reliefs are now replicated in other tax law allowing £1,000 tax free investment income a year and generous CGT allowances so ISAs are simply money pots for the wealthiest now.

And if these changes are not acceptable change the rules on what funds must be used for. I suggest all ISA funds must be deposited with a government owned investment bank required to use the money in question for real social and green investment.

£70 billion a year goes into ISAs. There gave hardly ever been any net withdrawals. This money could be used to transform investment in sustainable social housing and the green economy.

And for pensions, require that at least 25% (and maybe more) of contributions go into similar types of employment creating investment with social and sustainable goals, very tightly defined to avoid abuse. The government investment bank could use these funds.

Do this and suddenly utterly useless subsidies to the wealthy are transformed into socially useful investment funds fir the benefit of society at large, and all by simply using tax reliefs fir better purpose without ever needing to raise a single penny of additional tax.

Of the options I prefer the investment bank route. But unless it happens I will continue to ask why it is that rather quietly and strangely unnoticed the biggest recipients of state welfare in the UK are the already wealthy? That makes no sense at all.

And for those objecting to what I am proposing please in that case justify why the wealthiest ten per cent of people in this country get more subsidy per person on average for their savings than those on universal credit get to afford the cost of living. I cannot, so how can you?