

We need a new economics. But who will pay attention whe..

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It is a morning of very mixed messages on the economy.

[According to the FT:](#)

Chancellor Jeremy Hunt will on Monday set out a series of “Mansion House reforms” intended to channel tens of billions of pounds of Britain’s pensions savings into high-growth companies.

Hunt will use the chancellor’s set-piece annual speech in the City of London to set out reforms he claims will seize “benefits of Brexit” and make UK capital markets more attractive.

The second of these paragraphs shows how fanciful is Hunt's thinking. The only way to address Brexit now is by asking to go back.

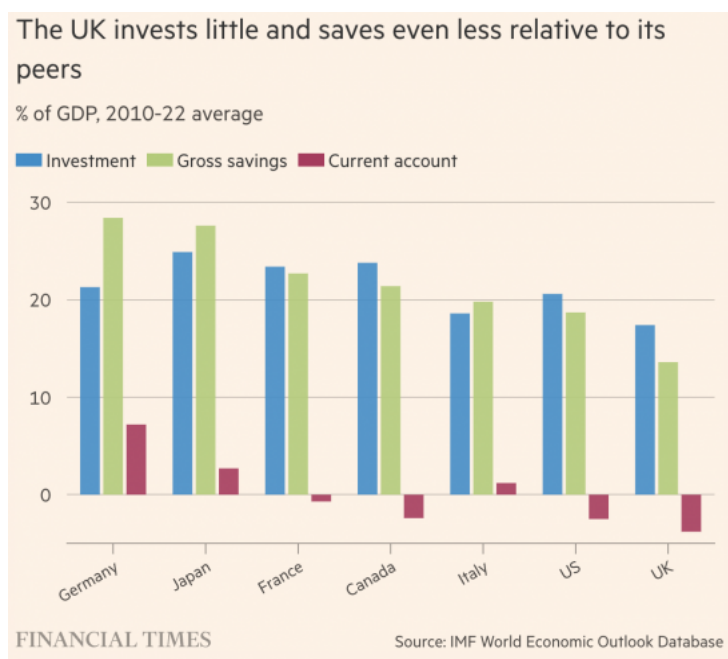
As for the first, the idea that pension fund money might actually be used to fund investment is something I have long advocated. I am glad that he has noticed that pension money is not being used in this way.

But the simple fact is that if pension wealth is at least 42% of total UK wealth (as ONS data shows) and represents at least 77% of all UK financial wealth, with ISAs making up another 8% of total financial wealth, meaning 85% of that financial wealth is now tax incentivised, then if money is not moving from tax incentivised saving into actual investment there are two possible explanations.

One is that the tax incentive to save is wrongly structured because it does not require that the saving be linked to investment, meaning the return to the state on the funds used to subsidise that savings activity goes to waste.

Or, alternatively, the incentive is being abused by those who use the saved funds to provide fund managers with a return that is unrelated to any actual investment activity because the funds are actually used for speculation.

I would actually suggest both these things are happening. So, I think does Martin Wolf, also in the FT yesterday. [He has this chart:](#)



Wolf bemoans our lack of saving, which he links to our lack of investment. He does not, however, make any of the necessary links.

If almost all our saving is tax incentivised and we do not save enough he does not ask why are the incentives wrong? Nor does he ask why can't we afford to save more, if that is what we need? And, again, he fails to ask why is there such a marked disconnect in the UK between savings and investment?

The answers are actually, I suggest, the same in each case. It is that we do not think savings need to be invested in this country. They only, it is thought, need to be speculated. That means that money saved does not reach the productive economy in the UK but instead actually leaves it altogether to float in a financial ether where it does nothing but support City bonuses. Productivity remains low as a result, meaning we do not have the income to save more, and so a vicious cycle ensues.

Meanwhile, as [Larry Elliott notes in the Guardian](#):

There are other suggestions for how the government might speed up the green transition, all of which meet with the same riposte: that the plans are unaffordable, irresponsible and the stuff of fantasy.

In truth, the real fantasists are those who cling to the belief that we can continue to exploit the natural world to satisfy our desires. If that's what economics is about, we badly need a new economics.

What Larry is noting that the actual response to real economic need for investment is that we cannot afford it, which makes no sense at all. If the UK savings rate is 13% then that supposedly means we save £325 billion a year. But apparently we cannot find the money needed for climate change to be addressed because, presumably, that would stop the flows into the City required to keep the stock exchange Ponzi afloat.

We do indeed need a new economics. And it has to reconnect savings and investment, which is the most massive disconnect in the whole world economy, where most wealth is just a chimaera, built on myths supported by accounting that reports everything but the fact that most profit is made by exploiting the future of life on earth.

Larry is right then about a new economics. But who will listen?