

Funding the Future

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<https://www.taxresearch.org.uk/Blog/2024/06/17/savings-are-dead-money/>

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In [my latest video](#), I argue that savings do not create economic wealth. They have a use in terms of financial security, but they rarely create useful economic activity. So why does the government spend £70 billion or more a year subsidising them?

<https://www.youtube.com/watch?v=Zk7xVxQaXns>

The [video can be viewed here](#).

The audio file is:

https://www.podbean.com/player-v2/?i=yhxva-16428a7-pb&from=pb6admin&share=1&download=1&rtl=0&fonts=Arial&skin=8bbb4e&font-color=&logo_link=episode_page&btn-skin=c73a3a

The transcript is:

Savings are dead money.

There's nothing useful about saved money. I know that you'd like to think there was. I know that personally, you think if you've got some savings, you feel more secure. And I do not doubt that. I think, in fact, having some savings is an extremely useful thing for everybody to have in their possession, if they can.

Why? Because it provides an element of security in the event of some unforeseen disaster that, frankly, helps a lot. People manage their lives and so of course people need to save but that doesn't mean to say that the money that people save by putting cash into bank accounts or, frankly, money into shares is of any use to the economy at all.

Let's use the two examples I've just mentioned. If you buy shares with your saving you buy second hand shares. So, for example, if you want to buy some shares in Marks & Spencer PLC, Marks & Spencer PLC hasn't issued any shares for a long time, to the best of my knowledge, which is a fact true of almost every company on the London Stock Exchange.

Instead, if you want to buy some shares in Marks & Spencer PLC, you'll buy some second-hand shares in Marks & Spencer PLC. In other words, ones that somebody who now owns those shares, wants to get rid of to somebody else. Now there's nothing wrong with buying secondhand items. I would encourage it in certain parts of the economy because that's called practical recycling, but recycling secondhand financial products adds absolutely precisely no value to the economy at all.

Well, except to the extent that somebody takes a bit of commission and lives on that commission as the return for their job in buying and selling those between the people involved, but that's tiny. It doesn't create new investment. Marks and Spencer's don't even benefit from the transaction directly.

They might indirectly, in terms of the director's bonus scheme, because the share price stays up because you bought some more shares, and most directors of large companies in the UK are incentivised for keeping their share price high. But in practice, the company itself really doesn't benefit. Gains nothing.

So that is dead money. The money you saved simply went to somebody else in the economy. What they do with it is up to them. But you can't claim that your money created benefit in their hands, because you don't know that.

The same is true if you put your money in a bank. If you put your money in a bank, all you have done is move money out of your current account into a deposit account at the bank.

This is simply an electronic transfer between two balances in the bank's bookkeeping system. The bank then pays you interest, which it might not have done on the current account, but otherwise, precisely nothing has changed. The money in the bank was dead when it sat in your current account. It became interest bearing when you put it into a deposit account, but the bank doesn't do anything with it.

It does not, in particular, lend it to anyone else.

It can't because it owes it back to you. It can't take the money that it owes back to you and say, well, I don't owe it to whoever you are now, and I'll put it onto somebody else's account because you'll say, hey, what have you done with my money? Where is it? It's got to stay on your bank statement to record the fact they owe you. They can't transfer your bank statement to somebody else's ownership.

And that's all that having money in the bank means. It means you have a balance on your bank statement. Nothing else at all.

When they lend money to somebody else, it's new money that they create for that purpose. So, saving in a bank, is absolutely dead money, totally and utterly. It does not produce any new economic activity.

So there's a really big question to follow this up. Why do we spend so much money in the UK, around £70 billion a year, encouraging people to save in secondhand shares and bank deposit accounts?

In other words, why do we encourage people to put so much money into their pension funds or into ISAs? Because that's the amount we spend on encouraging saving.

It's more than what we spend on schools in England and Wales.

It's more than we spend on the defence budget for the UK as a whole.

And yet, it doesn't produce any net real economic worth for the country at all.

It will make some people feel richer, that's without a doubt.

But is that what we should really be using government spending to do?

Or should we just be saying, "Save if you wish. Please do. We'll provide protections to make sure that whoever you save with is not going to run away with your money." Most certainly, that's a job for government to do. But should we be actually subsidizing the placement of money into redundant activity, which is what most saving accounts are?

I don't think so. So why are we doing it?