Funding the Future

# Let's talk pensions....

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I have published this video this morning. In it I argue that pensions are in the news because they very obviously are not working for people in the UK. The trouble is, the solutions assume a bit of financial engineering, and pouring some more money into the bottomless pit of the City of London will solve the problems. As I explain in this video, that’s definitely not true.

https://www.youtube.com/watch?v=iu62I0CXiYw

The audio version of this video is here:

https://www.podbean.com/player-v2/?i=6tehg-16775c4-pb&from=pb6admin&share=1&download=1&rtl=0&fonts=Arial&skin=60a0c8&font-color=&logo_link=episode_page&btn-skin=1b1b1b

The transcript is:

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*Pensions are in the news, and so they should be, because pensions in the UK are, in general terms, pretty lousy.*

*The state pension is far too low. It's much lower than that paid in most European countries, for example, about 38 per cent of the EU average, which is ridiculous when we are, supposedly, the sixth wealthiest economy in the world.*

*Private sector pensions are pretty bad too. Why? Because the City of London imposes massive charges on most pension products and enriches itself at cost to our future benefit as a consequence. That is bad news for our well-being. So we should be talking about pensions.*

*But, Rachel Reeves, when she's doing this, is, by the look of it, talking about forcing those who are auto-enrolled by their employers into the compulsory, or near compulsory anyway, state pension schemes to pay more money into those funds. There is no gain in this in terms of saving because, quite simply, this will be eaten up in terms of excess funds to be withdrawn by the City of London in charges from now to the time when most people will retire.*

*So, I don't see the benefit of this. I believe that this is the City simply saying.*

*“Share prices aren't high enough. We want them to go bigger. We want more money to flow into the market to achieve that outcome. We will get richer as a result. You will be able to claim this is growth, Rachel Reeves. Therefore, we, that tight community that she's talking to, plus Labour politicians, will be better off as a result and blow the rest of us.”*

*There's another reason why I don't trust those who are talking about pensions in those negotiations at present. And that is because what they're talking about is pensions as if they are solely financial products.*

*And they're not. They're nothing like that. The real implicit pension contract which exists in every society is that an older generation, people who, well, look like me, with hair my colour, should, by the time they reach my age, and I am now officially of retirement age, should have created sufficient capital assets for the generation that follows us to use in the course of their lives so that they can afford to give up some of their incomes to look after us in our old age.*

*How do they give up some of their incomes? Well, they pass over the benefit of some of the things that they produce to us, literally. The food that they produce, that those who are retired consume, the energy, the housing, and everything else that the elderly will consume, is made by younger people. They give that up to the older generation because the older generation have in turn created capital assets for them to use to produce those items which they don't effectively pay a return on.*

*Now this matters. That's a fundamental economic exchange. And yet we aren't honouring that within the financial products that we create, which we call pensions. The financial products that we create, which are called pensions, instead promote saving. Now saving is not the same as investment. I will say this until I am blue in the face on this channel, over years to come, if things go as I expect.*

*Because most people think that saving is investment, and it isn't. Saving is putting money into a bank account, or, in the case of the pension industry, almost invariably buying what I call secondhand assets.*

*What are secondhand assets? They are stocks and shares that are already in existence and have been issued by a company.*

*Or they are secondhand properties, which a pension fund decides to buy to collect rents from.*

*That is what pension companies actually invest in. Secondhand items.*

*It's a strange way to invest because no job is created as a result. No new economic activity arises apart from the collection of rents, in the pure economic meaning of that term, which means a payment without production arising.*

*And therefore, this activity extracts reward from society, and what is more saving in that way also takes money out of circulation in the economy in a way that depresses economic activity because it's not spent on consumption and therefore reduces growth. So, the whole process of saving for a pension in pure economic terms, if that saving goes into a financial product, is deeply negative as to its economic consequences.*

*What's required is a form of saving that links the funds which are put aside to the creation of new assets for use in the economy, which in turn will be passed to the next generation so that they may, as I previously explained, use them to look after the likes of me when I reach the point when I can no longer work, doing these videos or anything else. And that's what we need to do with our pension funds.*

*But that's not what they do. Almost no pension fund money - and there's six and a half trillion pounds worth of pension fund money in the UK - and that is roughly two and a half times our annual income. and therefore an enormous value of funds, the biggest part of financial wealth in this country as a whole - that money is not used in any sense creatively. And I don't think that any of the changes that Rachel Reeves is talking about is going to make any difference to that.*

*In fact, I’m quite sure they won't.*

*Why? Because she's simply talking about boosting the flow of funds into existing pension arrangements.*

*Now she's saying she might require those existing pension arrangements to buy new more shares in smaller companies. But even smaller companies don't use share capital to fund their investment activity. Most new money going into share capital in smaller companies is actually used to buy out existing owners or is part of a merger and acquisition activity, in other words. It isn't used to fund the creation of new assets for long-term use for the benefit of society. That's done by borrowing from banks. And banks don't use depositors’ funds to make those loans, and therefore, again, there's no association between a pension fund and that new investment.*

*Unless those who are talking about changing the way in which our pension system works understand this fundamental pension contract between my generation - older people - and younger people who are going to forego their income to keep me when I* *am infirm, then they don't understand what they're talking about.*

*And that is deeply dangerous because the financial products they're creating will not fulfill the expectation that we in society have of them. And if that's the case, well, our pension system is going to remain not just pretty rubbish, but it's actually going to fail us in the end because we're forcing more and more people into it and there's no likelihood that the promise that it is creating will be fulfilled as things stand.*

*And, of course, I'm worried about that. Who wouldn't be?*