Funding the Future

Welcome to the Labour pension con-trick, coming your wa...

Published: January 13, 2026, 11:53 am

I was on LBC this morning talking about pensions in the light of a Rachel Reeves media onslaught on the subject scheduled for this morning.

The Press Association summarised this in a press release as follows:

The Chancellor hopes to boost pension pots by £11,000 and unlock billions more in investment with a review of retirement savings.

With pension schemes expected to manage about £800 billion by 2030, the review will look at how they can be encouraged to invest in productive assets such as infrastructure.

As well as supporting the Government's aim of boosting economic growth, the Treasury said this would also ensure better returns for savers, increasing the average pension pot by more than £11,000.The announcement follows the inclusion of a Pension Schemes Bill in Wednesday's King's Speech, to help savers by introducing automatic consolidation of small pension pots and a value-for-money framework to improve governance.

This is all, apparently, to be delivered by yet another Labour task force (they are arriving thick and fast).

I think we can safely predict what the pension industry will demand. This comes from the FT, yesterday:

City grandees have urged Rachel Reeves to tackle the "impending crisis" facing British retirees because of a lack of long-term savings, following warnings the King's Speech missed an opportunity to raise workplace pension contributions.

In a letter seen by the Financial Times, eight financial services veterans told the chancellor that Britons were not saving enough in workplace schemes to ensure a sufficient retirement pot.

The signatories …. urged Reeves to prioritise lifting "substantially" the rate of long-term savings for workers in "auto-enrolled" pension schemes.

As I said on air, this approach would be disastrous, but let me expand on that.

As I have said time and again on this blog, the only thing savings do in the macroeconomy is withdraw funds from active use within it. In other words, they are inherently deflationary in withdrawing funds from the economy, reducing growth as a result. By their very nature, they deliver the the opposite of the growth agenda Rachel Reeves is seeking to pursue. I wonder if she knows that?

There is also absolutely no guarantee that savings will result in investment. I am sure that Rachel Reeves was taught at university that:

S = I

Where:

S = savings

and

I = investment

This is a formula that might just work in the barter style economy that macroeconomics believes exists. It does not hold true in the real world where there is money, which money macroeconomic theory very largely ignores which is why it is so hopelessly wrong most of the time.

In the real world savings are of three broad types:

* Cash, which as we know is usually held in a bank, where they might provide a form of risk capital to the bank itself but where the sums deposited are never used to fund loans to bank customers, because that is a technical impossibility. So, this form of saving never boosts investment.

* In second hand assets. This is where pension funds and most marketed savings schemes place their money.They buy second-hand shares in companies or they buy second-hand properties. They might also buy some corporate bonds, but not necessarily new ones. In that case this form of saving provides liquidity to the financial markets, and a big opportunity for them to take a rake off from dealing fees, but it provides precisely no new money at all for investment.

* Third, there is saving used to fund actual investment. There is remarkable little of this. That is partly because actual investment in the UK is low, bit also because the vast

majority of what investment actually takes place is funded by loans from banks, which term I use to embrace both commercial and investment banks. And, as previously noted, they do not need savings to fund this investment.

There is, I should add, government investment. This is funded by bonds issued to the markets: this is one of the rare occasions when the link between the market purchase of an asset (a government bond) and the act of saving has any direct relationship with investment, at all. In all other cases, the reality is that there is little or no link.

Looking at what Rachel Reeves and the City (and let's assume they will eventually walk in step) want, the following goals becomes clear:

* More saving, which as far as the City is concerned is required to:
* Boost asset prices
* Boost City trading incomes
* Increase City fees
* Increase pension fund values short term by artificially inflating prices by having more, compulsorily subscribed, money chasing a fixed amount of existing assets, which will always increase prices

* Asset price inflation, which as far as Rachel Reeves is concerned:
* Boosts short term confidence
* Makes pensioners feel they might have a better future
* Makes the City happy
* Guarantees her future employment
* Persuades the electorate to vote Labour again

In other words, there is a conceit in here to inflate asset prices.

There is no plan to actually invest more.

That said, there is an implicit demand in what Rachel Reeves is saying to allocate more funding to things like private equity funds, which do highly speculative deal making in the shares of smaller companies. Many of these funds provide remarkably little capital to the companies that they deal with. If they do, the price extracted is enormous, and the pressure within the companies to whom they provide money then moves from investment for growth to grooming for sale, because these funds always want a quick turnaround on their money. They are an appalling mechanism for funding British business, and are usually deeply destructive in reinforcing our negative, short term, financial engineering culture. The only people they add value to are the private equity fund managers, who are (in fairness) quite blatant about that goal.

So, what we have is a three pronged attack which says:

* People on low pay should be forced to pay more into pensions

* The City should gain as a result because asset prices will be hiked, which will con people into thinking they are better off when that will almost certainly not be the case.

* Private equity will have more money to play with and Rachel Reeves will call that investment.

In reality this will happen:

* Taxes will effectively rise, because an increase in what are, for most people, compulsory pension contributions feels like a tax increase by any other name.

* There will be little or no new actual investment.

* An asset price bubble will be created which will eventually burst.

* The government will say that investment is increasing without it having to raise tax or borrow to do so, but the social value (if any) of that investment will be unknown and our futures will be left more perilous as a result.

* People will have been conned.

* We will be no more ready to tackle the real issues in society, like climate change and the demand for change that it creates.

* And vital public infrastructure investment would have been outsourced, probably at very high cost, if it happens at all.

That is a deeply depressing scenario. But it seems to me that this is exactly what is happening. A financial disaster is being created in front of our eyes with Labour seeking to abuse pension funds to increase the profits if the City of London, which increase it will call growth.

Will pensioners benefit from this? Not one iota.

Welcome to the Labour pension con-trick, coming your way at considerable increased cost to your pocket, very soon.