Funding the Future

Article URL

Published: January 12, 2026, 7:09 pm

This morning's video is slightly different in that it is, I am afraid, audio only. I really didn't feel like sitting in front of a camera yesterday, but I was happy enough to talk into a microphone. so that is what I did.

In the resulting monologue, I argue that William Beveridge, writing in 1944 in the report that became the foundation of the UK welfare state argued that too many savings in too few hands could be deeply destructive within an economy. Hence, the title for this blog post, which is a direct quite from him.

The YouTube version of this is here:

The audio version is available here.

The transcript is as follows:

Hello, this is Richard Murphy. I'm sorry that I'm not looking at you in this video. That's because I've had quite a vicious ear bug, and as a consequence, I'm not feeling at my best today. So, rather than show you me at, well, less than optimal performance, I thought I'd just record some thoughts. And it may not be normal practice for people who are lying in bed recovering from a bug to read Beveridge's 1944 report on Full

Employment in a Free Society, which was, of course, one of the foundations of the UK's welfare state, but that's what I was encouraged to do this morning.

And in particular, I found a paragraph that supports one of the hypotheses that I often put forward, which is that savings are not a useful economic exercise. Now this frequently offends people because it is of course a natural inclination of many people to save and there is indisputably a value to people having some savings.

I would always argue that and always encourage people to have a rainy-day fund at the very least which will enable them to deal with the inevitable crises that come along in life. I am not arguing against that.

Nor, to some extent, am I arguing against savings for pensions, although I do, as many people who know me will realise, have some reservations about the way in which pension savings are put into shares, land and buildings, all of which are second hand in the way that they are purchased by these funds.

But that is not what I'm really talking about. I'm talking about here the economic consequences of saving. And Beveridge tackled this in his report. It's on He did so in paragraph 123. And I want to read it to you. He said this:

Saving, in itself, is merely negative. It means not spending. Saving may be desirable from the point of view of the individual who saves in order to ensure to him the means of spending and of independence later. Apart from this merit of securing independence, saving in itself has no social virtue.

He is, therefore, reflecting the point that I have made many times over, but he does so in a very specific economic context as well. He does so in the context of the arguments of J. M. Keynes, John Maynard Keynes, and by then, Lord Keynes, who was, in my opinion, the most eminent economist of the 20th century and who had made the point, in contrast to classical economists, and neoclassical economics that savings did not fund investment.

There was no obvious link between the two. And most certainly savings were not equated with investment by the mechanism of the interest rate because that simply did not work. What is more, as Keynes and Beveridge agreed, there was no reason why large quantities of savings within the economy were necessarily socially beneficial at all. In fact, as Beveridge agreed, supporting Keynes in the view, there was a socially destructive element to the whole idea of savings.

Now, we have to put this in the context of the period. He was writing during the course of the Second World War, and the vast majority of people in the UK did not have much to save at that time, except, admittedly, their rising wages because wages did rise during the course of that war.

But the vast majority of savings then, at that time, as is also still the case now, were owned by a relatively small proportion of society And it was this part of savings which caused the Beveridge the greatest concern.

He wasn't saying that the savings of those people who were putting money aside out of regular earnings to provide for the rainy day fund were in any shape or form a problem. He clearly understood that they were useful, and he also made the valid point that for everybody who was saving in that situation, there was probably somebody who was dissaving - drawing on those funds to meet the costs of that rainy day. And, therefore, they were very unlikely to create any form of economic disruption as a consequence of what they were doing.

But when it came to the savings of the very wealthy, he agreed with Keynes that these could be deeply economically destabilising. If the wealthy saved too much, and therefore became wealthier, they could in fact therefore remove so much demand from the economy. that some people would have insufficient to live on because there would not be enough economic activity undertaken to provide them with the means to earn a living. And others might just be forced into debt to make good the deficits that they were facing because of the lack of economic activity because of the excess savings of the wealthy.

This he saw as deeply problematic. He did in fact say that this undermined the whole logic that the savings of the wealthy were the underpinning of the investment that was the basis for the wealth of the economy.

The exact opposite, he said, could well be argued to be the case. They do not necessarily cause growth., The savings of the wealthy could, in fact, quite probably cause depression if they decided, using the term Keynes was making familiar, that their ‘animal spirits’ were low, and therefore they did not wish to actually use the money for any constructive purpose including straightforward spending.

So, what there is in society is a problem when we have excess savings. That has made it particularly perverse, that in all the years since then, governments have gone out of their way to encourage excess saving, to the point that we now have financial worth in the UK of £15 trillion or so, which is six times or so greater than the national income.

Why is that worrying? Because they are so large that the use of those savings can by themselves destabilize the rest of the economy. And in a sense, Rachel Reeves is right to look at the role of pension funds in this because they own and manage over £6 trillion of that wealth. And a significant other large part is the value of land and buildings - that's coming to over five trillion.

So, those two are by far the biggest two factors in the recording of the value of financial wealth and so savings.

But if pension funds are actually taking money out of the economy, they're a drain. And yet we are spending roughly £70 billion a year of government income, or rather, lost government income, by way of tax reliefs and subsidies given to support these pension funds to increase their wealth in a way that might actually be wholly counterproductive.

Beveridge recognised that seeking to accumulate savings for those already wealthy- and by the way, the vast majority of people with significant-sized pension funds are already wealthy - the accumulation of wealth by those people as a goal in itself could be the cause of economic recession or a lack of growth, and their failure to use those funds in any way constructively, there being no obvious link between savings and investment, could exacerbate that trend.

So, what I've been saying for a long time is purely Keynesian. It underpins the thinking of the welfare state. And, what I've been saying for a long time reflects an economic truth, but it also reflects an economic truth that we have chosen to forget. The idea that savings are inherently of worth and that financial wealth must be preserved because it is the foundation of our investment and the prosperity of our economy is quite simply wrong.

The foundation of the prosperity of our economy is the putting of people to work in gainful employment at fair wages so that they can afford to live well. That is what makes a prosperous society and we have not put sufficient focus on that.

In particular, I'd ask the question, are we giving £70 billion a year of direct subsidy to that process in the way that we should be instead of giving that much money towards pension savings as we are? These questions are really important

It's fascinating to note that this point was understood in 1944 but here 80 years later, this issue still needs to be addressed.

We are over emphasising the importance of saving in our economy, and to this extent, Rachel Reeves is entirely wrong. And what we are not emphasising is the importance of investment in our economy, and to confuse saving into pension funds and other media as being the source of the investment is simply and straightforwardly incorrect. That is not what happens.

Therefore, we need to change our entire thinking on this issue. Beveridge was right. Rachel Reeves is wrong. Keynes was right. History has forgotten him. It's time we understood how savings can actually be negative for the benefit of our society, particularly when they are excessive and in the hands of a relatively small part of that society, which is the problem that we suffer in the UK.

And now it is time for us to put this right.