Funding the Future

If we want to increase investment we need to tax advert...

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I was in discussion with a friend last week who raised his concern about the shortage of savings in the UK, which, he suggested, provided an explanation for our slow economic growth.

I think it's fair to say that the friend in question was surprised by my suggestion as to how we should deal with this. I put it to him that if we really wished to increase the rate of saving in this country then the most obvious thing to do would be to reduce our rate of consumption. And, I suggested the best way to achieve that would be by reducing the amount of advertising that takes place within our economy when the sole goal of that advertising is to promote that excess consumption which is reducing our rate of saving.

A tax on advertising might, I said, be a perfect way to achieve this goal. This could be very easily achieved by simply preventing companies from reclaiming from HM Revenue & Customs the value added tax that they are charged when they incur advertising expenditure. The consequence would be a 20% increase in the cost of advertising in this country.

My friend was horrified. "But," he protested, "reducing consumption would in turn reduce demand in the economy, and that will be completely counter-productive". I did, of course, point out that this was only true if you thought economic growth based upon the value of resources consumed was the only definition of well-being, but we did not pursue that argument further.

Instead, I asked how he thought we might, without increasing earnings, increase savings unless we cut our consumption, and he admitted that he had no answer to that question.

Then I pointed out that savings were, in the way that we make them in the UK present, in any case, almost wholly economically unproductive. They are either stored in the form of cash balances at banks, and banks never lend deposits made by customers to those who ask for the loans (which I had to explain to him). In that case, these balances served little economic purpose.

Savings are, alternatively, almost entirely used for the purchase of either second-hand shares that are already an issue and are quoted on a stock exchange, or for the purchase of second-hand assets. He protested that this was not true, as private equity proved. However, as I pointed out, private equity almost entirely invests in companies already in existence, and has a notoriously poor track record in adding value to the companies in question whilst delivering enormous returns to the private equity operators who fleece every pound of value out of them that they can.

Unless, in that case, we change the way in which we save so that money put aside by those who think that they undertake this activity is actually used as the capital that might underpin new economic activity, as I have proposed with regard to investment for a green transition, then the act of saving has almost nothing whatsoever to do with the creation of new economic activity in the economy.

If, in that case, we also demand that consumption be reduced to boost this already economically redundant activity, the consequence might be that we end up with a double whammy for growth if that is the economic objective that is desired.

I cannot be sure that my friend was persuaded by my arguments, but he certainly went away most mightily perplexed as he should have been. The proposal that he had made to me made absolutely no economic sense, given the outcomes that he wished to achieve. But that is neoliberalism in a nutshell.