Funding the Future

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The City wants an end to cash ISAs, and that would be a mistake.

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This is the transcript:

Hands off ISAs, I say. And I'm saying it for a very good reason.

Let me get my terminology right. When I talk about an ISA. I am talking about an individual savings account, the sort of thing that is offered to you by your bank, by your building society, or, if you wish, somebody slightly more esoteric within the financial services market. And right now, there's a lot of debate going on inside that financial services market about the future of ISAs.

Now, let's just put this in context as well. ISAs were the successors to a previous type of tax-incentivised savings account. They were introduced in about 2000, and basically, since then, they have expanded in range and size, by which I mean you can put more money into them now than you could ever do in the past. Up to £20,000 a year can be put by you into an ISA account. And there are some other types of minority ones as well. But basically, £20,000 a year can go into an ISA account, and as a consequence, you can enjoy the earnings on the money that you save in that ISA tax-free. And if there is a capital gain on it, that is also tax-free.

Now, let's be clear. There are a lot of people who do not need to save in ISAs. That's because they don't have enough money in savings to ever actually be troubled by the tax liability that they might owe on their savings. You can earn, in the UK at present, up to £1,000 a year on your savings, presuming that you are a basic rate taxpayer, and pay no tax on that income. And for a lot of people, £1,000 from their savings would be beyond their imagination. Those people, frankly, need never go near an ISA.

But these days, with interest rates running at 4 per cent quite commonly, and sometimes more, you can run to the point where you do get that amount of interest a year fairly easily if you have any degree of saving, which is most likely to indicate that you're also older and have probably been middle class or more, and therefore, with hair of my colour, you might have a bit of money in the bank, because if you haven't when you reach retirement age, you never will. So, this is a tax subsidy - and let's be clear about this - to the wealthiest in the UK.

And it's a big tax subsidy. It costs at least £5 billion a year at present. It may be more because interest rates are relatively high still right now.

And there's something like £700 billion in ISAs in the UK.

And maybe £70 billion a year goes in. In fact, in the current financial year we know that £50 billion has gone into ISAs already, and I'm only talking there about the cash ISAs.

So, let's mention this point. There are two fundamental types of ISAs. There are cash ISAs, which simply mean that your ISA is a wrapping around your bank account to mean that you do not pay tax on the interest it earns. And there are also share savings options inside ISAs, which means that you can have a portfolio of shares, invested probably for you by a fund manager, and the income and gains arising on those are also tax free.

How you split that money is now pretty much up to you. There is a lot of freedom about how ISA savings can now be managed. And, to some degree, that's good in the sense that having some savings is important for people's security.

One of the statistics that worries me most about the UK economy is the fact that 70 per cent of people in this country do not have sufficient money to manage a financial crisis in the form of a big bill if it were to come along. The fridge fails, the cooker fails, there's a big household repair bill, the car has got to have a major service well and truly beyond anything that somebody had anticipated, and there is a crisis because the money isn't available. That is a measure of financial insecurity that we need to tackle. We do need people to have sufficient funds to cover the proverbial rainy day.

But ISAs aren't really for that money. ISAs are for the money you can put aside for a while. And again, there are good reasons why people need to put money aside. They are saving for a specific event, or they're just worried about the future. And okay, I accept all that.

Now, I'm going to ignore for the moment the fact that cash savings are not terribly productive when lodged with a bank because banks do not need to have money lodged with them to enable them to make loans to people. That's an issue I've discussed elsewhere. Search the videos that I've made on how money is created, and you'll find more about that.

What I'm worried about is the fact that right now, the City of London is moving against cash ISAs. And overall, cash ISAs are more popular than share ISAs.

In fact, most things are more popular than anything to do with shares in the UK economy because people don't see a lot of reason to save in stocks and shares anymore. And the reason why is, well frankly, the London Stock Exchange is not actually giving people the greatest of options as to how they want to save. They are desperate to have more money come into the stock exchange right now because they want to push up its value. It might already be at record highs at this moment - quite bizarrely, because the world's in chaos - and yet we seem to have this perverse consequence of the stock market at record highs when risk would suggest it should be going down, but they want more money to come in.

They don't want to create more shares for people to buy. They want more money to come in to buy the existing shares because that pushes up the value of the existing shares because demand for them goes up. And that then makes everybody in the City feel very good because they get bonuses on the basis of increasing share prices or increases in the value of the money that they are managing in the share portfolios of people who've got ISA and other such accounts.

It's payday for the City time when share prices go up and they're so desperate for them to go up they're now saying that people should not be allowed to save in cash in ISAs. They're saying the government should not be subsidising that saving.

They're not attacking pension funds, which, of course, don't use ISAs because pension funds give them the boost they want in other ways.

They're attacking cash ISAs because they're a simple product that people understand and want, and which they need, and where they don't want the risks that a share-based saving creates, and, as a consequence, the City hates them.

So, should cash ISAs survive? My answer is yes, and no. Let me explain.

There are some situations where saving in cash is very valuable for the economy as a whole. For example, as I've just mentioned, saving cash in a bank really does not do very much for the macroeconomy because a bank does not need deposits to make a loan.

It does need deposits to become a part of its effective capital if it goes bust when you are at risk, except for the fact that the government does, of course, guarantee up to £85,000 of deposit you have in any bank, including your ISA accounts. But cash does make a difference to building societies.

Building societies do not operate like banks. And they do out. And they do actually rely on the sums that are deposited with them. So, if we remove cash ISAs, one particularly important and long term and long-standing and quite valuable part of the UK financial services sector would suffer some consequences. So, I'm not sure we should be getting rid of cash ISAs offered by building societies because there's merit to them.

That's the yes; we need cash ISAs.

So, why don't we need cash ISAs?

We don't need cash ISAs because those which are lodged with banks are pretty much dead money when it comes to the macroeconomy.

I have a much better use for that money. For a long time, I've argued that if people want to save in an account guaranteed by the government, which is what almost all ISAs are, then they should do something with that money that provides a benefit to the government in exchange for both providing the guarantee and providing the income tax-free. And that something is in my opinion, funding social investment.

That social investment could be in housing, it could be in green energy, it could be in new transport, it could be in new schools, it could be in better hospitals, you name it, we need money to fund infrastructure in this country.

And I've already mentioned a key number. To December 2024, £49 billion, near enough, £50 billion of money went into cash ISAs in the UK in a single nine-month period. The implication is that we will this year actually have record deposits in cash ISAs of in excess of £70 billion.

And think what you could do with that money if it was made available for social investment, which is what I want.

This would be easy to arrange. Banks could be required to act as agents for ISA accounts, which are invested in government bonds with a guaranteed rate of return, very similar to what frankly National Savings and Investments already provide and which you might want to look at except they don't provide an ISA account, as far as I know, and that money could then be used for social purposes.

The government would have available to it a pot of money for investment, quite independent of taxation, and you would understand that your savings were being used to create a social return on your behalf and on behalf of your children, and your grandchildren and whoever else you wanted to benefit in the community in which you live.

For which reason, I'd even suggest that these ISAs should, for example, have an East Anglian ISA or Scottish ISA or Welsh ISA or South West England ISA, or whatever you want. Have a Stoke-on-Trent ISA if it's necessary, I don't care.

My point is this: the funds should be saved in a way that will help identify the benefit for the community in which the person who has saved wants it to be seen.

And that, to me, is vital because we need to recreate a relationship between saving and its consequences, which should be a capital investment in the community. If we changed ISAs - cash ISAs - excluding those which are used by building societies to support the investment by young people in the communities in which they live by buying homes - if we required that all other ISAs were saved in the way that I say, we could funnel lots of money into the types of investment I've already mentioned and improve the well-being of the people of this country.

I don't want ISA money to go to the City of London because, frankly, all they're promoting is a Ponzi scheme, which will, at some point, inevitably crash because there isn't the fundamental value in the stock market that already is supposedly in existence. I believe it's already overvalued, although those in the market will claim otherwise.

I do want to create investment in real things and not in paper-based financial products, which is all that the City have to offer.

If you want to invest in real things in your community, you would want ISAs reformed so that you could save in the way that I suggest.

If you do, then I've got a call for action. Write to your MP and say could they please promote ISAs that are used to fund government investment in social infrastructure of the sorts I've mentioned in this video. It's something you could do now, and it's something that would make a difference because MPs need to know that people want to do this.

You can help change the world. It's a small thing. And yet, because there are so many people who do save we could release billions and billions to make the world a better place. And that's got to be worthwhile.