Funding the Future

Savings are dead money

https://www.taxresearch.org.uk/Blog/2025/07/22/savings-are-dead-money-2/

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We spend £80 billion a year encouraging people to save – but it doesn’t fund growth, wages or investment. It just props up banks and financial markets. In this video, I explain why savings are essentially dead money and what a more effective economic strategy would look like.

https://www.youtube.com/watch?v=eVsVHVOwh4E?si=SQCGnL3Tongy84aY

This is the audio version:

https://www.podbean.com/player-v2/?i=yfbb6-190f0c0-pb&from=pb6admin&share=1&download=1&rtl=0&fonts=Arial&skin=f6f6f6&font-color=auto&logo_link=episode_page&btn-skin=c73a3a

This is the transcript:

Something I say quite often is that savings are dead money. And people always say to me, " How can that be true? How can savings be dead money?" And my answer is that they're money that's been put out of use in the economy and which does not therefore do anything useful for anyone, even though I fully accept that people have very good reasons for saving because they want to do so for some future event or their retirement or whatever else. That still means that the money is dead as far as the economy as a whole is concerned. So I think I need to explain that.

I need to explain it because politicians don't agree with me.

We have a whole political system in the UK that encourages saving.

We spend £10 billion a year to encourage people to put money into ISA accounts, and that's almost entirely dead money, and there's over £700 billion saved in those accounts.

We spend £70 billion a year encouraging people to put money into pension accounts, and yet the vast majority of that money is also dead money because it's saved in cash or it's saved in shares, which are bought secondhand, or it's invested in property, the vast majority of which was also invested in secondhand.

In other words, these savings don't create any new economic activity in the economy, and that's precisely what I mean when I refer to savings as dead money.

They do nothing at all for growth.

I'm actually making this video because one of the viewers of these videos wrote to me and he said to me - and it was a man - "aren't savings in banks recycled into loans, and then into paying wages, taxes, and building infrastructure?" And most people might think that the claim that he made is right.

But I'm making this video to explain that that is a total misunderstanding of what money is, how it behaves, and what banks actually do, and it also totally misunderstands what stock exchanges and even pension funds do.

So let me explain.

The big misunderstanding really starts with savings in cash. I'll mention the others, but cash is paramount here because there are almost £2 trillion, that's two with 12 noughts after it, a sum of money so big that you can't imagine it, that is saved in cash in the UK.

The problem is that people think money is real, tangible, and it's transferable. It's not.

You keep on thinking that money is a pile of notes and coins, and you can shuffle it from one person to another, and that's how money moves, but that's not true. Even notes in particular, and coins are pretty irrelevant these days, but notes are just a record of debt. And what you do when you make a payment with a note is simply transfer a debt from one person to another, and the fact is that all money is just a promise to pay. It's a debt, an IOU, and that's even printed on our bank notes. It does say, "I promise to pay the bearer on demand."

I keep on saying this, and people keep on not hearing it, so I suspect I'm going to be saying it for a long time to come. But the fact is, you must remember that money is debt, and debts are personal. You can't pass most debts around. You can in the case of bank notes, because they are what are called 'bearer bonds', but they're just about the only form of debt that exists in that way in the UK as a whole now; everything else is personal.

So, for example, if you put money in a bank in the form of savings, in other words, you put it in a deposit account, what you actually have is an agreement between you and your bank.

There's a contract in place, and the bank says, if you give me money, I will hold it safely for you and will return it to you either on demand or at some fixed date in the future, and in the meantime, I will pay you, but not anyone else, interest that is earned on that account.

Now, a bank loan is also about debt, only in this case, the bank lends money to someone.

In the case of a bank deposit, you lent money to the bank. In the case of a bank loan, the bank lends money to someone. But it's still personal. They can't lend your money to someone else because it's your money that they've got in your deposit account, and they can't say to you, "Sorry, you haven't got a deposit account anymore. We lent it to Jo over there." Whether Jo is male, female, or whatever else doesn't matter. "Jo's got your money now, and if you want it back, you'll have to go and talk to Jo about it."

That's not how banking works. Banking works on the basis of discreet and individual relationships between you, the depositor, and the bank who has your savings, and the bank and the person who borrows, Jo, in this case. And the bank creates new money to make the loan to Joe.

How does it do it? It's really very simple. If Jo comes in and asks for a loan, the bank says, 'Yes, we'll make one to you." If they think Jo is creditworthy, and what they do is increase the value of Jo's current account. It goes up from nothing, maybe, to £10,000, and they increase the value of Jo's loan account from nothing to £10,000.

Now, one of those is a positive and one is a negative; it doesn't matter which, and it doesn't matter in whose books you're looking because Jo's books and the bank's books are just mirror images of each other.

But the fact is that by simply marking up those two entries, money was created out of thin air because if Jo now decides that they don't want the loan, Jo will simply say to the bank, cancel what you put in place, and the bank will reverse the entries, and the money disappears again.

And what is more, the money will always eventually disappear again, because when Jo repays the loan, it will literally cancel the money that was created.

But in the meantime - and presuming that Jo goes ahead - there is money in Jo's current account, and Jo believes that they can spend it, and they can, and people will accept it.

And the interesting point then is that when Jo spends that money, somebody's got to bank it, and that creates a new deposit in a bank.

So when you get to the point where you wonder where the bank deposits come from and why banks take them, it's because they have to because they couldn't loan at a profit if they weren't willing to take back the money that they create as a consequence of making a loan by way of accepting a deposit from the person who receives the net eventual benefit of the loan that they've made.

But what does that deposit do? The simple fact is that it just sits there. And that's particularly true if we are talking about a deposit account.

Effectively, money put in the deposit account is removed from circulation in the economy.

It doesn't fund investment or growth.

It doesn't even fund current spending or consumption.

And it certainly doesn't fund wages in a business.

Nor does it fund taxation payments.

It's just dead, except for one thing, and that is that the money in question does provide the bank with whom it is deposited with cheap capital. It doesn't do anything for the wider economy, but it does let the bank feel a lot more comfortable about its own financial situation.

Let's just be clear about this. What's going on here is that the bank basically has now got your money, and you don't have it anymore. The bank has a liability to pay you, but that doesn't mean to say you've got money in the bank. The bank has simply acknowledged a debt to you, and it does that by printing a bank statement with your name on it and showing how much it owes you, and that's the end of it.

That's all you've got. You've put £10,000 in the bank and in exchange you've got a bank statement, and a little bit of interest if you're lucky, because the banks don't like paying interest, because they don't actually really want to take your deposit because they make all their money out of making the loan and not taking the resulting deposit back from you.

But if everything goes wrong, and in 2007, it did, in the case of Northern Rock, then depositors can lose their money. They literally form part of the capital of the bank, which is at risk if the bank fails, and they can then lose their deposit account.

And that's why banks do like holding deposits because they're the cheapest form of funding that they can lay their hands on.

And that is also why the government has to guarantee your deposit in a bank if it's up to £85,000, because frankly, why else should you trust a bank? They are using you.

So why else is there a deposit facility in a bank?

Well, actually, largely because bank regulation also requires it. Not only is there an economic imperative that, of course, the bank needs to take your money, because it's created it somewhere else, and if it didn't allow you to deposit it, they couldn't make a loan, but banks are also required by modern banking regulation to provide a banking facility. So that's what banks have to do. Simple, straightforward fact. There's no way around that. But in that case, let's be clear; money saved in bank accounts is withdrawn from the economy; it doesn't build factories, it doesn't pay wages, and it doesn't spur growth.

It just props up banks' cheap capital. But in that case, why are we so keen on savings?

Why have we got this so wrong when savings don't fund investment?

Why do we put the priority on savings when it's loans that create money, demand, and growth in the economy?

And why is it that we also make the same mistake when it comes to shares and pension funds? Because, after all, there are almost no new shares issued in the UK now. Almost every share that you can buy in whichever company you wish to buy it, is secondhand. If you go and try and buy a share in, I don't know, Marks and Spencers, whoever it is you want to buy a share in, they will sell you not a new share in the company, but one that was previously owned by somebody else.

The company itself gets no money at all as a consequence of you buying a share in it. That is something that very few people seem to understand. Companies don't get a single penny from a sale of their share secondhand. And since well over 99% of all share transactions in the UK are now secondhand shares, shares simply don't fund investment either.

And because pension funds hold cash and they own buildings, the vast majority of which are bought secondhand, and shares, the vast majority of which are bought secondhand, they don't fund investment either.

So we come to the situation where we have to reappraise saving, because this has been seen as a priority for growth in the UK economy, and yet since the end of the gold standard era in this country, which in its last gasp came to a close in 1971, there has been no economic at a macroeconomic level to suggesting that we should save as a country.

For individuals, I stress, saving still makes sense, but for the macroeconomy, it doesn't.

So why are we spending maybe £80 billion a year of government money subsidising saving?

Why aren't we spending money subsidising productive investment?

Why are we wasting money as a consequence?

Isn't it time that we reappraised all these incentives and stopped giving money to the holders of dead funds and instead started giving money to people who will actually invest it to create productive assets that will meet the needs of the UK economy?

And if they won't, isn't it time for the government to do that itself?

If we did do that type of investment incentive, we would have a vibrant and fairer economy.

This is at the core of reviving the UK, but at the moment, none of our politicians understand anything that I've just said, but you could now remind them of the truth. Write to your MP. All the links to do that are down below.

Taking further action

If you want to write a letter to your MP on the issues raised in this blog post, there is a ChatGPT prompt to assist you in doing so, with full instructions, **here.**

One word of warning, though: please do make sure you have got the correct MP. ChatGPT can get it wrong.