

There is no shortage of money

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In this video, I challenge one of the most deeply embedded assumptions in modern economics: the idea that there is a shortage of money.

The reality is very different. The world is awash with cash. Investment funds, pension funds and wealthy savers are sitting on enormous piles of money that they cannot find productive uses for. Berkshire Hathaway alone is holding hundreds of billions of dollars in cash because it cannot identify investments that offer acceptable returns.

At the same time, societies face urgent and obvious needs. We need new housing, better public transport, upgraded energy systems, flood defences, schools, hospitals and environmental restoration. The resources to fund these investments exist, but the connection between savings and social need has broken down.

I explain why this is happening, why stock markets increasingly look detached from reality, why bond markets are sending warning signals, and why governments are choosing not to create the investment opportunities that both savers and society need.

Most importantly, I argue that the problem is not financial. Currency-issuing governments can always facilitate investment. The real obstacle is political. Fiscal rules and neoliberal assumptions are preventing money from being directed where it is most needed.

As a result, I also suggest practical reforms to ISAs and pension savings that could release more than £100 billion a year for socially useful investment and help rebuild the UK economy.

The money exists. The need exists. What is missing is the political will to connect the two.

<https://www.youtube.com/watch?v=zmaa7OEntuE?si=QYvtvia1vpLDg0HB>

This is the audio version:

https://www.podbean.com/player-v2/?i=feamm-1ada756-pb&from=pb6admin&share=1&download=1&rtl=0&font=Arial&skin=f6f6f6&font-color=auto&logo_link=episode_page&btn-skin=c73a3a

The Debate Ammunition for this video is available here.

This is the transcript:

Most people in the world think that there's a shortage of money. That's not true. The world is awash with cash right now. There is no shortage of money in the modern economy. People are sitting on enormous piles of it. The world's savers, who are admittedly the world's wealthy people, hold billions at present in pounds, dollars, yen, and euros, and all of that money is sitting dormant, doing nothing.

The world is awash with cash as a result. Money is sitting in bank accounts, and the real problem that these people have is that there is a shortage of places in which they wish to invest their money with any confidence.

Investment funds across the UK and the USA are reflecting this fact. They are sitting on enormous cash piles. Berkshire Hathaway, the investment company that was run by Warren Buffett for so many years, and he's still its chairman now at the age of 95, is holding \$380 billion in cash right now. It can't find anything to do with that money.

UK investment funds are doing the same thing. They're leaving their money on deposit rather than investing it because they can't find a use for money. This is the paradox at the heart of today's economy. It is the problem that we need to solve. We need to put money to use, and at present it is doing nothing. That is what this video is about.

The conventional story we're told is that capital is scarce. Governments claim they are constrained by a lack of money, and the neoliberal narrative is that investment funds are hard to find and they must be carefully rationed, and yet evidence at this moment points in exactly the opposite direction. Money exists in abundance. The world's wealthy have vast amounts of it, but they have nowhere responsible that they can put it. Understanding why requires looking at two connected failures, which are characterising the economy at this moment.

The first failure is with regard to shares and stock markets. Share prices are at or near record highs across major markets around the world right now. They are becoming

detached from reality. It's a point I've made many times. And much of the exuberance that is underpinning the valuation of stock markets is driven by excitement around artificial intelligence. At the same time, there are thankfully prudent managers who are reluctant to commit new money to these massively overvalued markets. You need to pray that your pension fund manager is one of them. Your future may depend upon that. Even central bankers have flagged concern about excessive valuations. The Bank of England has said so, and history is clear.

Speculative booms of this kind very rarely end well, and this is not caution for its own sake. Those who are sitting on piles of cash right now are undertaking a rational response to disconnected markets. They're saying they don't want to take the risk that these markets are offering them. They're saying they prefer to leave their money in cash instead.

The issue is not about the technology that is on offer, or that AI is at fault when they decide not to invest. The problem is that current valuations imply extraordinary future profits from these investments, and those profits are incredibly unlikely when most of what passes for innovation these days is simply marginal improvement in existing assets or a form of rent extraction, which is what AI is going to be. It's taken other people's property, it's put it into a database, and now it is charging us for the right to access the information they put into a database, but which frankly they did not create. That is a perfect model of rent extraction.

Contrast that with the genuinely transformative innovations of the past decades. Washing machines transformed lives for women in the 1950s and 60s. They were freed from the drudgery of Monday washing day. I remember that as a small child. My mother with a twin tub washing machine and a ringer, and it was hard physical work. The automatic washing machine got rid of that. She went to work. Vacuum cleaners did the same thing. Cleaning houses was so much easier. Women were liberated to join the workforce.

Reliable cars transformed the way we moved around.

The internet, mobile phones and PCs. These really changed how people lived.

This was innovation and investment with a purpose.

In contrast, today's investment pipeline is weak, and investment managers know it. That's the problem that stock markets face at present. For all the talk of AI innovation, what is it really? It's just a giant database designed to control us.

Bond markets are also sending out warning signals. The traditional alternative to share investments is government bonds, but bond markets across developed countries have been behaving very strangely for the last few months. Bond prices have fallen everywhere, I mean worldwide in all the major markets, meaning that effective interest

rates have risen everywhere. This is not just a UK phenomenon. It's being seen in the USA. It's being seen in Europe, and Japan, and beyond. Investors have been selling government bonds rather than buying them.

This is a striking signal of a loss of confidence in governments as well as markets right now. Fund managers appear reluctant to trust either stocks or shares with their money, and so they're keeping it on deposit. I think that this is a sign of a deeper failure. Cash accumulation is not simply a sign of caution or risk aversion. It is not even a sign of prudent management in itself. It is evidence that something has gone seriously wrong in our economy.

Responsible savers have money available for good reason. They put it aside because they want something in the future and they need something to do with it now, but they can't find anything or anywhere to put it which might provide them with the sort of return that they want by investing in real economic activity.

At the same time, society has obvious and urgent investment needs. Government has the capacity to facilitate the connection between these two, savers and investment needs, and yet that connection has broken down completely.

The investment needs of our society are obvious and unmet. Across the UK, there is a need for investment in housing and energy systems, flood defences, transport infrastructure, schools, and hospitals. All of these are underfunded, as is environmental renewal, which requires sustained long-term capital commitment. The social return on these investments would be enormous, and the economic returns could be substantial too. But the money to fund all of this does not exist in the way that we need it because it's sitting in bank accounts instead, and why is that? That is because governments are choosing not to act.

The constraint is not a lack of money. Currency-issuing governments can always create money by their spending. They can always find money to fund their investment plans, but even within fiscal rules, the real constraint is political and not financial.

Fiscal rules rooted in neoliberal assumptions are blocking necessary investment. These rules are preventing the governments of the world from creating the very opportunities that investors seek. They want to partner with governments in creating the investments that will provide us with a better future, of that, I am sure. But the governments are saying they can't do that because it will increase the size of their balance sheets. And as a result, money is left as money sitting useless in bank accounts, and none of this is an economic necessity. It is a political choice, and political choices can be changed.

The fact is that there are three elements that need to connect here. Savers with long-term money are looking for responsible investments. Society has communities, infrastructure and environments that urgently need rebuilding, and governments have both the capacity and the mandate to bring these two together. But right now, all three

exist in isolation from one another. That is the failure that I'm talking about.

This is the central political economy problem of our moment. Solve this, and much of the rest of the economy would fall into shape. We need then to redirect savings towards socially useful investment.

Pension funds, ISAs, and other long-term savings vehicles could be directed differently. All we have to do is change the rules with regard to savings and pensions to encourage investment in real projects, rather than feeding speculative financial activity, which is what most savings do now, even though they have tax subsidy through tax relief, and we could rebuild our communities. We just need to make the proper social use of funds saved a condition of the tax relief that so many people enjoy as a consequence of the savings that they place with financial institutions.

The funds exist. The needs exist. What is missing is the political will to change the rules of saving. I set out detailed proposals for the changes to these rules in the Taxing Wealth Report. You can download it. There's a link down below. Read chapters 25 and 26. The result could be substantial new flows of funds into the places that markets are currently neglecting.

We have a tragedy that is a solvable problem. That is my point. The resources to transform our societies are available right now. Investment managers are sitting on mountains of cash with nowhere to put it. But they could direct it towards societies that are struggling with housing shortages, failing infrastructure and environmental threats. It simply requires a change in tax rules to require this.

ISAs should, for example, be invested entirely in bonds that are used for the purpose of dealing with these social investment requirements. They could become the capital foundation of our new society.

Change pension rules so that a quarter, only a quarter, of new contributions each year must be used this way in exchange for the tax relief that is given on pension fund contributions, and I believe that sum could also be added to the pool of money available for that purpose.

How much money is available a year? Change the ISA rules in the UK, and maybe £70 billion a year could be available for social investment. Change pension rules, and I think over £30 billion a year could be available for this purpose as well. We could find more than £100 billion a year to invest in the UK from our savers in a way that would transform saving, and which would transform our society at the same time, and which would reconnect saving with investment and which would not impose a burden on government, although it would have to guarantee the return on these sums, which is a small cost to pay for the gains that would be provided, and we would have a transformation as a result.

We've been told that scarcity is the problem we face with regard to investment. What I'm saying to you is it is not. The real problem is a political system that refuses to connect money to need. Changing fiscal rules, using savings, incentives, and investment frameworks, to actually promote social benefit could transform our world.

The case for doing this is both economically sound and socially urgent. We do not have to accept the current failure to connect money with investment as a permanent condition. This does not need to happen because it is a choice, and we can change choices. We can decide to change the rules; quite literally, that is what government is for, changing rules. And the government could change the rules on pension saving and ISA saving, and as a consequence, we could invest the money that could transform our society now. In every town, every village, every city, every area of the UK, there could be the money that is required to make life better.

That's what I think. What do you think? There's a poll down below. Please let us have your comments. Please do like this video, if that's what you do. Please do share it, that helps us with YouTube. And if you like our style and this channel, if you'd like to buy us a coffee, that helps us make more videos of this sort.

Thank you.

Poll

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