Funding the Future

Your savings are being wasted

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The UK savings system is dominated by ISAs and pensions. Together, they account for most personal savings. But are they delivering what the country needs?

In this video, I argue that they are not. ISAs receive generous tax relief. Pensions receive even more. Yet the result is not the investment in productive capacity that economic theory says savings should deliver. Instead, much of the benefit goes to the City of London, while savers often get disappointing returns and society gets too little investment.

The real purpose of saving should be capital formation: building the assets, skills, infrastructure, public services and ecological systems that make life better. That is not what our current savings system is doing.

I suggest that the government should offer new, safe savings products through National Savings and Investments. These could be linked to real social purposes: health, housing, education, green investment, regional development and long-term public need.

This would not be about clever marketing. It would require real accountability, with savers told how their money had been used.

Savings should not just preserve private wealth. They should help create public value.

https://www.youtube.com/watch?v=bSir0mqh5us?si=dliIXT25R3cHSIMF

This is the audio version:

https://www.podbean.com/player-v2/?i=nxbh5-1b05c50-pb&from=pb6admin&amp

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The Debate Ammunition for this video is available here.

This is the transcript:

What should the UK savings system be for, and what should it be actually delivering for our benefit? Those are the questions I want to ask in this video, and I’m going to tell you upfront: I don’t think that almost anything about our current savings system is working for the benefit of us, the country, or the government, and that we could do very much better. And I’m going to propose a system that is very much better.

Let’s be honest, we know why people save. They save for the proverbial rainy day. They save for big events. They save for their retirement, and some people just save because they’re cautious. Others spend everything they’ve got. But the fact is that there are people in the UK who save. They are overall a minority of the population, and of course they tend to be amongst the wealthier people because the fact that you’ve got savings does indicate that you are wealthy. But the question we need to ask is: what are we doing with those savings?

And it’s a question that almost nobody asks. We just go on blindly with the systems we have: the ISA system, the pension system; they represent well over 80% of all savings between them in the UK. And we don’t ask, “Is this working for our benefit?” I’m suggesting that the system is not working at all for this country, and it’s time we reinvent our savings system.

Let’s just stand back for a moment and look at what economic theory says about savings. Savings, it says, are meant to fund investment. That, in economic theory, which is still taught at every UK university, is what savings are for.

Savings are meant to provide the funds that create the investment in the productive capacity of our economy so that we have the means of production that we need, and future generations need. That’s what it is said savings are for, but that is not in any way how our savings system in this country now works.

Our savings in this country are not used to fund investment. Those savings are, broadly speaking, held in three ways.

In one form, they’re held in cash, and banks don’t need cash to lend, so the money that people hold in cash in bank accounts, and that’s more than £2 trillion in total in the UK at present, doesn’t do anything economically at all.

It helps banks in the case that they go bust because you are providing them with capital, which they can absorb to cover their losses in the event that they fail. But that apart, you are not helping create any further added value in the economy by saving in cash. That’s a matter of fact.

The second use of savings at present is to fund speculative activity. Yes, I know you think that your pension fund or your ISA is buying shares, and that supposedly is funding investment, but that’s nonsense. First of all, in most UK pension funds, only about 5% of all sums saved in shares are now located inside the UK economy. The vast majority will be spread across the world, with most being in the USA. That drags more money into its economy than any other around the world. But UK pension funds are terrible at saving in UK shares right now, a fact that is widely acknowledged.

And even when money is saved in shares, there is almost no relationship between the purchase of shares and the creation of new investment in the economy because the vast majority of the shares that pension funds buy are what I call “secondhand”. In other words, they were issued centuries ago in some cases, and they are still being traded. They are not there to create new investment.

And the third thing that pension funds buy are secondhand properties. They, by and large, don’t create new ones. They, by and large, trade in land, which is already in existence, and buildings which are already in existence.

Our savings do not create investment. And as a consequence, just going back to economic theory, our saving system as it now is, has failed. We are not delivering investment with our savings, even though our total savings - and the figures here are all based upon Office for National Statistics data and are subject to a bit of discrepancy - our total savings are between £8 trillion and £11 trillion in the UK; the discrepancy in that being in how much money is in pension funds, and nobody seems to be able to agree on that figure, with most thinking that the Office for National Statistics figure, which is around £6 trillion, is much lower than actually exists.

And there is a significant cost to this failure. Remember that every year the UK spends a fortune, around £80 billion plus a year, subsidising UK savings. It does this in two ways. It gives subsidies on ISA accounts, that’s individual savings accounts, which individuals can hold, and those subsidies now cost nearly £10 billion a year. And the subsidy exempts that income into ISA accounts from tax, and also the gains on shares held in ISA accounts from tax as well. That is money used to subsidise that product.

And the pension tax relief cost is very much higher still. We are not quite sure because HM Revenue and Customs no longer provides the detailed information we require, of what the total cost of this pension tax relief is, but it’s certainly well in excess of £70 billion a year, and that comes in the form of the subsidy given when people put money into pension funds; the fact that tax is not charged inside pension funds when the money is there; and the fact that when money comes out of pension funds, a large part of it is tax-free; and the part that is taxed tends to be taxed at a much lower rate than when the money went in.

Therefore, there’s a massive subsidy paid each year to pension products. And most of that money, let me stress, goes to subsidising the City of London and its speculative activities. I know you might think you get a tax relief; you do. But in practice, do you see a return as a result?

Look at the rate of return before tax on ISA accounts and compare them to other accounts. The ISA accounts tend to have a lower rate of return. The City pockets the rest.

And when you come to pensions, if you look at the rates of return, they’re pretty poor in the UK, and by and large people are not happy with the outcomes. Other countries do better. This money is not being turned into super-normal pension returns for people in this country, which is what the government expects for the money it spends.

In other words, we’re giving a massive bung each year to the City of London, and we’re not even seeing any investment as a consequence. All of this means we are really seeing nothing more than the creation of an army of bond vigilantes in return for the subsidy that we give to the City. Public money deserves a better purpose than that.

And the missing link in all of this is that the City has simply forgotten that the purpose of savings is to create capital formation; Capital formation in the form of those productive assets that will make life better for us.

And those assets are of an enormous variety. They’re the IT systems used for business. They’re the properties used for business. They are the transport systems that are used, the energy systems, and, of course, the training and innovation that goes into things as well. All of that is essential in the private sector and in the public sector. And both are being starved of the funds that they need by the way in which our savings system works.

This is a failure of the market. The market has forgotten what it is there to do and, as a consequence, it is now time, in my opinion, for the government to step in and say, “If after all this length of time, and with all the vast level of subsidy you’ve had - this is after all the most subsidised industry in the UK - you cannot deliver what this country requires. It’s time for you to step aside and for the country to get the savings system it needs, and for the government to supply that if the market can’t.”

And I believe that that is a new role for government, that is essential now, and which will fundamentally transform our well-being, our politics, our economics, and the way in which we save for our future.

The government could provide genuinely safe savings opportunities, and genuinely safe really matters to people. Remember, people want the government guarantee on their cash balances. They won't save in cash unless they have that. People know that only the government can provide them with security, and they know that their pension pots aren't guaranteed, and they worry about that. The government has the job of providing security, and it can do so by ensuring that we establish, or reestablish, this connection between savings and investment.

And I stress what I'm talking about here is something that is quite important because although the government doesn't need savers' money to invest, I believe it should be using savers' money to invest because that money is being used recklessly and harmfully in the existing forms of saving that exist. And the government can use savers' money as capital for the purpose of the public interest by using it to invest for social purpose.

So, modern monetary theory may say this is not necessary, and I know that, but modern monetary theory does not tell a government what it should do. And a government could provide a savings mechanism if it wished and use the money in that savings mechanism to provide capital, because that is a fact; it can do that. And it should do that because the alternative use of this money is socially destructive.

So, the real point here is a policy issue. Do we want savings to be socially positive? That's what I'm talking about. Or socially negative? That's what the City of London provides at present.

And the government should be doing what I suggest because society needs the capital that I want to promote, and it needs a safe savings mechanism.

So how do we do this? My suggestion is, the government should provide new savings opportunities via National Savings and Investments. Remember that at present, National Savings and Investments holds about £250 billion worth of people's savings. And that forms part of what the government likes to call the national debt, which is quite absurd because these people don't want the money back; that's why they've given it to the government in the first place. So, this is technically debt in the sense that it is repayable at some point of time, but it's never a stress. In fact, the balances tend to always go up.

And the government has, in fact, constrained the growth in balances at National Savings and Investments quite unnecessarily because it doesn't, it says, want the money that people want to save with it. But I say it should take all the money that's available within the economy, put it to good use, and not worry about limits and not call it debt at all.

These are savings bonds. They're savings products. They are deliberately provided to the government for a safe return. And that safe return would be a guaranteed interest rate. It will be something like the Bank of England base rate. It will not be excessive, but it will certainly be competitive in any marketplace. And the bonds in question will be on shortish terms, 1, 2, 3, maybe five years. The sorts of things that at present banks and building societies provide. Entirely familiar products to people in the UK.

And these would become the only savings that would, in my opinion, be allowed within ISAs and at present, more than £70 billion a year is paid into ISAs every year, and I believe that will carry on. You can see why I think that this arrangement would guarantee a steady source of money to the government. And if you look at ISA balances over time, there's never been any net withdrawals from ISA accounts. So this would be a form of capital that the government could use to provide for investment purposes.

And I've also made proposals with regard to changing the rules on pension tax relief, requiring that these bonds also be used for that purpose, with one quarter of all money paid into pensions being required to now go into these bonds; this is new contributions, by the way, not existing ones, and that would be the condition of getting your tax relief. You could have a pension which didn't have tax relief; that would be your choice. But if you want tax relief, you would have to save in a socially responsible way.

The consequence is that this form of saving could provide well over £100 billion a year for social saving. And then my proposal is that people should be able to choose what they want their savings to be used for. And this is particularly important. I want to reestablish a relationship between people, their savings and social purpose. I want people to be able to say where they want their savings used.

So, they might choose defence bonds at this moment because apparently we're under great threat, although I don't believe anyone on that issue, by the way. Or they could choose health bonds because they value the NHS. They could choose housing bonds or nature bonds that will invest in our green transition and also in the preservation of our biosphere and essential natural habitats.

Communities could also be invested in to support local investments. So you might be able to direct your money into your English region or into the governments of Scotland, Wales, and Northern Ireland, and I think that could be particularly important and quite attractive to some people. But education could also get its own fund, as could other issues as well. Whilst pension savers could invest in long-term projects to back future generations, in other words, their grandchildren.

Savings could then become an expression of shared values. And that's what I think is particularly important about all of this from a political perspective. At the moment, we talk about the national debt as if it's a burden; I want to talk about savings as if they are the basis of future prosperity, because that is precisely what they could become. And that is essential. This reframing is fundamental to our re-understanding of releasing the potential within our economy to deliver what we need to have a better society and to restore our faith in ourselves, which our politicians have denied to us, which is why so many people are rejecting those politicians.

And all of this must not just be clever marketing. That's incredibly important. I don't want a marketing scheme. I want something that genuinely supports the chosen purpose. So if somebody saves to put money into the NHS, they should have their money invested in the NHS, and they should get a report saying how their money has been used. If somebody saves to have their money put into East Anglia, there should be a report telling them what that money has been used for, and so on, if it's the Southwest or Wales, or if it's Scotland or whatever. Those reports should be available.

Public accountability by government to people would therefore be reestablished as a consequence, and that is also fundamental and key to this idea of rebuilding relationships around our money. Our money has to be used wisely. And trust depends upon honesty. That is key to this. We are reestablishing all the relationships of trust, which underpins society by putting this proposal forward.

Now, I have to stress that the government would still have to decide what to spend money on because that's critical. They have to overall direct the economy. So people could not vote entirely with the way in which they chose to save, to say all money must go into the NHS, and nothing must go into anything else. The government must restrict the amount of money raised on an NHS bond, for example, if they only have so much investment in the NHS that they want to do. They will close that account then, in a year, if it had been oversubscribed, and would make people choose another bond instead. That will be an entirely reasonable, totally sensible thing to do. But investment must follow public need is the criteria.

So these savings accounts should not drive purpose. Purpose should be driven by choice, but the capital should be raised to fulfil that choice. That's the important point here.

And we must also allow and follow available resources to ensure that the investments that are being proposed can be delivered, and in that case, investment can be in people. And I think that's incredibly important to say. Training is part of the investment in our future.

So these savings simply provide capital. They release the potential within society to create opportunity for all, and that is critical. The bond issues would have to reflect all of this. And the gains from this programme would, in my opinion, be absolutely enormous.

Savings would leave speculative markets.

The City of London and its casino would be reduced in value, and that would be a great benefit to society.

We might also get a redistribution of value out of the southeast of England into the rest of the economy, and we know a lot of politicians talk about the importance of that.

But most particularly, capital would flow into productive investment. We'd have better housing, we'd have better infrastructure, we'd have better energy systems, we'd have better NHS services because we'd have better NHS facilities. We'd have better education because we'd have better-trained teachers and we'd have better-equipped facilities. And society will become stronger and more resilient as a consequence, and tax relief on savings, that £80 billion plus a year that the government spends, would finally serve the public purpose. Existing subsidies would be redirected.

In my opinion, we will probably find that there would be no net cost to the proposals I'm making to guarantee that interest rate to savers, even if the project saved in did not make the rate of return required to cover the interest cost because we would be saving all that ridiculous subsidy that is now going into the City of London and producing no return at all.

Therefore, the government's net cost of this programme might be very modest indeed, whilst the economic boosts that it would provide would create a substantial tax revenue, and that would in fact more than cover any costs involved. Society would receive far greater value. The government would receive greater revenue, and the cost of subsidies might well fall: a triple win then.

At the same time, we might change our ideas about wealth. Wealth would no longer just be accumulated money. That's what we see it as now, but that's false. Wealth is in reality those things that help us build society: people, infrastructure, knowledge, resources and nature. Those things must all be nurtured. They are the basis of wealth. And in the programme that I'm proposing, saving would become participation in that wealth creation process for the common good. Capital would serve that common good, and economics would become about relationships again.

So in conclusion, let's reconnect saving with society. We do not lack savings. We have at least £8 trillion of savings in the UK economy, and maybe more. I'm using the cautious number there. What we lack are the institutions to use our savings well. The government could build those institutions. The prize is a stronger economy and a stronger society. And you would have your choice about where you would want your money to be invested for the society that you want for you, your children, your community, your grandchildren, whoever. That seems an opportunity we should not waste.

This is all technically possible and entirely deliverable. It could be done quickly and effectively. The only problem we'd have to overcome would be the objections of the City of London, and because they've been wasting our money for so long, we should ignore them. We should be talking about creating savings for the common good. National savings are the basis of our future prosperity.

That's what I think. What do you think? There's a poll down below. Please take part. Please let us have your comments. We do try to look at as many of them as we can, and please do share this video if you like it. That would be great as far as we are concerned. And if you want to give us a donation so that we can continue to make these videos, that would be great as well. Thomas and I have been through the wars of late; another coffee would do no harm. There’s a coffee donation button down below.

Poll

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