Michael Tory

Turbo-charge pensions to break our addiction to immigration-fuelled growth

Politicians have neglected the importance of savings and investment for too long

Michael Tory
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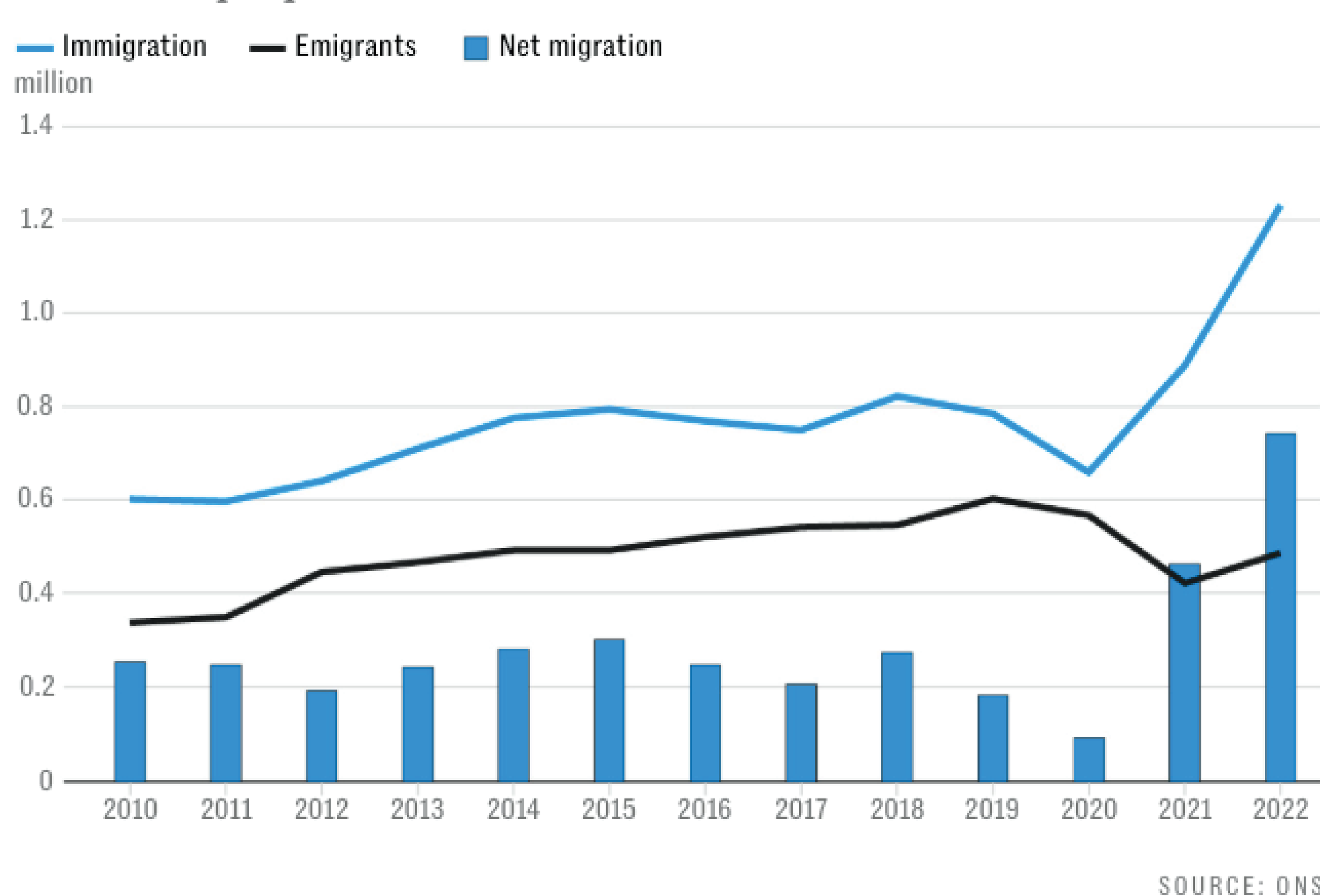
"An era may be said to have ended when its basic illusions are exhausted," said American playwright Arthur Miller in 1974, the turning point of an earlier epoch.

And that is where the UK finds itself today, with a central illusion underlying much of this country's economic policies over almost four decades now finally exhausted: that domestic savings and investment do not matter in a services, especially financial services-led economy, particularly in a global market where we can rely on continuous access to capital from overseas.

The jury is well and truly in on this three decade-long experiment and the results are calamitous: protracted stagnation of per capita income (0pc growth for 15 years and counting, per World Bank), an unsustainable dependence on immigration to maintain UK GDP and its public finances, and an irresponsible dependence on foreign capital that has massively eroded our economic sovereignty – think of vital national infrastructure like Thames Water and Heathrow Airport – and our national security – think Chinese ownership of sensitive technologies.

Immigration to Britain has skyrocketed

Number of people



SOURCE: ONS

It has also led to the dissipation of the wealth generated by this country's uncommon creative energy, which is now reflected in patterns of accumulation that do not do justice to the breadth of the UK's human capital, especially its entrepreneurial spirit, with more UK start-ups per capita than any European country – and by far the most "unicorns" (private businesses valued at least $1bn).

It is simply a myth that services-focused economies do not need savings and investment, best illustrated by our peers who also have important service sectors yet orders of magnitude higher levels of savings and investment. They have also generated much better growth in per capita income, with the UK falling 12 places in the global ranking (to 23rd place) over the past quarter century – a bigger drop than any major country.

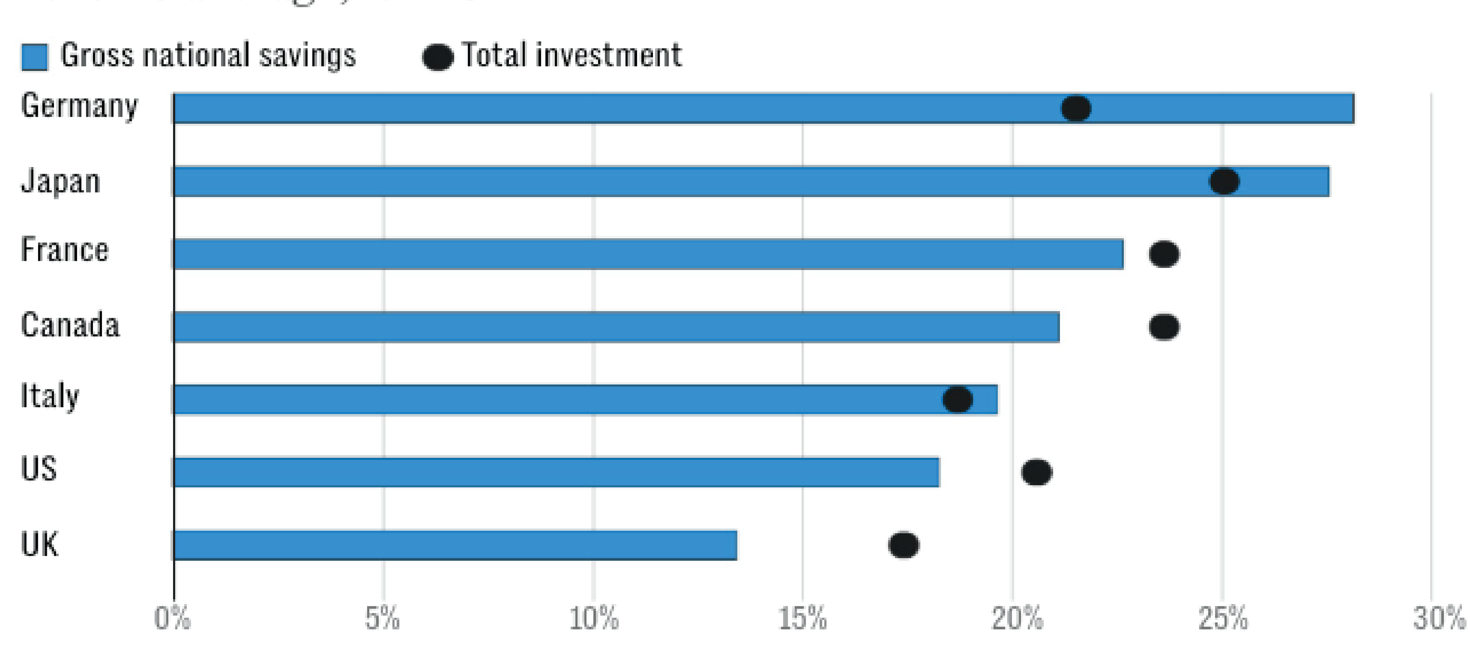
While no policymaker has actually stated that domestic savings and investment don't matter, revealed preferences from 25 years of UK policy choices are clear: successive governments passed disastrous pension and accounting regulations that caused the collapse of the UK's defined benefit (DB) savings system, accelerated our dependence on foreign capital and allowed the UK life insurance industry to feast on the remains of the closed DB system, earning roughly half of its profits relieving UK companies from the intolerable burden created by bad policy.

Governments then took over a decade to implement a replacement savings system, defined contribution (DC) auto enrolment, which is woefully short of what is needed to provide for future generations' retirement needs and is even more fragmented and underweight UK investment than the DB system it replaced.

A services-led economy with low savings, investment and productivity has only one remaining raw material to generate economic growth – namely labour. With a low birth rate, this means more immigration; and not surprisingly, gross flows to the UK closely track the two distinct pre and post-bubble periods, with the immigration surge following the latter leaving UK economic growth and tax revenues now more dependent on immigration than all of our European peers.

Poor savings rates leave UK relying on foreign capital inflows

2010-23 average, % of GDP



SOURCE: LSE

This is why targeting immigration levels is not only futile but also circular since the UK economy's structural dependence on immigration is merely a symptom, mainly (but not entirely) of the shortfall in savings and investment.

We must instead go to a root cause and break the UK's addiction to immigration-led growth by a wholesale policy shift to building a savings and investment-led economy that is less dependent on it.

This would entail prompt implementation of policies that include:

– A step change in employers' contributions to DC auto enrolment to 9pc+ from the current pitiful level of 3pc. This would bring total contributions to the 15-20pc range, still barely adequate to meet future generations' retirement needs.

The additional cost to employers should be partially offset by further easing surplus extraction from existing DB schemes, as has been proposed elsewhere.

– Pool all DC contributions into a single, professionally managed retirement savings fund ("GB Savings"), including portable individual "units" to enable ease of mobility, with the scale, time horizon and diversification to begin restoring the UK's supply of long-term equity and risk capital.

For the enlarged pool of DC funds, the allocation of say 80pc can be self-directed as at present, with 20pc to be streamed for investment in UK corporate assets, including infrastructure.

– For the remaining DB pension funds, retention of their tax privileges should be contingent on investing at least 20pc in UK corporate assets, since UK taxpayers should not be providing an unlimited subsidy to invest the country's savings abroad.

– Kick-start the creation of a new Sovereign Wealth Fund (initially under the British Business Bank, proven stewards of UK national assets) with the proceeds from the sale of NatWest shares plus half of the annual North Sea oil windfall tax, both of which belong to the nation and should therefore not end up as drops in the bucket of government spending.

– The new wealth fund would deploy its capital initially into smaller UK listed companies, a sector which used to be a vibrant source of 'tomorrow's winners' but which has been heavily hit by the evaporation of long-term risk capital.

There is a Chinese saying that the best time to plant a tree was 20 years ago, and the second best time is today, which is why we must act now.

More than politicians recognise, the wider public already understands – and experiences daily – that the old and tired dogmas and formulas no longer deliver for the British people, are doing an enormous injustice to this country's extraordinary dynamism and have left us vulnerable to a reckless dependence on foreign capital.

If we really want to "take back control", this is the place to start – and it is now beyond urgent.

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