Composition of UK household wealth since 1995

"An era may be said to have ended when its basic illusions are exhausted," said the American playwright Arthur Miller in 1974, a turning point in an earlier epoch. And that is where we are in the UK today, with the final exhaustion of a central illusion underlying much of this country's economic policy since at least the mid-1980s: that domestic savings and investment don't matter in a services-led economy (especially financial services), particularly in a global market where we can always rely on access to capital from abroad.

The jury is well and truly in on this three decade long experiment and the results are calamitous – protracted stagnation of per capita income (zero % growth for 15 years and counting, per World Bank), unsustainable dependence on immigration not only to maintain UK GDP but also its public finances (as recently observed by the OBR), plus an irresponsible dependence on foreign capital that has undermined the UK's economic sovereignty (think of vital national infrastructure like Thames Water and Heathrow Airport) and our national security (think Chinese ownership of sensitive technologies).

It has also led to the dissipation to foreign owners of the wealth originating from this country's uncommon creativity and innovative talent, which is now reflected in patterns of wealth accumulation that do not do justice to the UK's amazing human capital, especially its entrepreneurial spirit, the UK having more startup businesses per capita than any European country and by far the most 'unicorns' (private businesses valued at least $1 billion).

It is simply a myth that services-led economies do not need savings and investment, best illustrated by all of our peers, who also have important service sectors yet orders of magnitude higher levels of savings and investment. They also have much better per capita income growth, the UK having over the past quarter century fallen 12 places in the global per capita income ranking (to 23rd place), a bigger drop than any other major country. (The data and sources validating these dismal outcomes are set out in full at www.turningthepage.com.)

While no policy maker has actually stated that domestic savings and investment do not matter, revealed preferences from 25 years of UK policy choices are clear: successive governments brought in disastrous pension and accounting regulations that caused the collapse of the UK's defined benefit savings system, accelerated our dependence on foreign equity capital and then allowed the UK life insurance industry to feast on the remains of the defunct DB system, earning roughly half of its profits by relieving UK companies from the intolerable burden created by bad policies. Governments then took over a decade to implement a totally inadequate replacement savings system, DC auto enrolment, which is woefully short of what is needed to provide for future generations' retirement needs and is even more fragmented and under-weight 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 which, with a low birth rate, means 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.

This is why targeting immigration levels is so futile and circular, since the UK economy's structural dependence on immigration is merely a symptom, mainly of the shortfall in savings and investment. We must instead break the UK's addiction to immigration-led growth by a wholesale shift of policy focus 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 over time in employers' contributions to DC auto enrolment to 9+% from the current pitiful level of 3%. This would bring total contributions to the 15-20% range, which would still be barely adequate to meet future generations' retirement needs.
- Pool all DC contributions into a single, professionally managed retirement savings fund (GB Savings), including portable 'units' for every individual to enable ease of mobility, and with the scale, time horizon and diversification to begin restoring the UK's supply of the long-term equity and risk capital, which is critical both to recovering our lost economic sovereignty and to retaining more of the wealth which originates from the UK's distinctive human talent.
- Make all pension tax privileges contingent on funds' investing at least 25% of their holdings in UK corporate assets, since UK taxpayers should not without limit be subsidising the country's savings to be invested abroad.
- Kick-start the creation of a new Sovereign Wealth Fund (initially under UKGI/BBB, a proven steward of our national assets) with the proceeds from the impending sale of NatWest shares plus half of the annual North Sea oil windfall tax, both of which belong to the Nation, and which should therefore not end up as drops in the bucket of government spending. The new SWF would deploy its capital initially into smaller UK listed companies, a sector which used to be a vibrant source of 'tomorrow's winners' for this country but has been heavily hit by the evaporation of long-term risk capital, including so many promising companies being sold to foreign buyers able to supply the long-term growth capital no longer available here.

There is a Chinese saying that the best time to plant a tree was twenty 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 formulas are no longer delivering for the British people, are doing an enormous injustice to this country's extraordinary innovative and dynamic pool of talent and have left us with a reckless – and now visibly damaging – dependence on foreign capital.

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