This was an anti-investment Budget

blogs.lse.ac.uk/politicsandpolicy/this-was-an-anti-investment-budget/

3/20/2014

By identifying makers, doers and savers, George Osborne had the right targets for this year's Budget. However, his policies fall short of what is needed, argues ***Emran Mian****.*

How did the Chancellor put it? This is a Budget for makers, doers and savers. What do makers need? Investment. Doers? They need a little bit of patience from their backers. What can savers provide? Long term patient capital. In other words, the Chancellor identified a trinity that might be able to lift the curse of secular stagnation. What a shame that his policies don't follow through.

The challenge is clear. The nexus between the three needs repair. The savings rate alone is in free fall. The capital to fund makers and doers is disappearing into consumption instead. The latest OBR forecasts show the savings ratio dropping from 7.2% in 2012 to 3.2% in 2018.

In this context, the Chancellor is right to hone in on policies for saving. But his choices are questionable. He is abolishing the one mass market tax free savings product that channels investment to business growth: the stocks and shares instant saving account. He is creating a new government offer to compete in the bond market for pensioners' capital. And he is giving incentives for annuity holders to draw their money out of long term investment and use it for other things instead. Do you remember the Treasury's desire as recently as last year to have pension funds pile into public infrastructure? Well, forget that. Now the Chancellor wants to get that money out in some other way.

Each of these measures reduces the scope for investment. Instead they work, respectively, to move money into the banks and on into mortgage finance; loosen discipline on the public finances; and continue British households' preference for spending over saving. Yet of course each measure has its own innocuous explanation. Starting from the back, annuities need a blast of competition because they deliver returns that are too low. Well, that's no surprise. We're in a low productivity and low interest rate equilibrium. The point is to change it, not to admit defeat and pull the money out.

Moving on to the new pensioner bond, the Chancellor might say: well, what's wrong with using the savings of domestic pensioners to fund the government? Japan does that. It reduces the government's exposure to the gilts market. Yes, but it also draws pensioners' capital towards what the Chancellor himself regards as a low productivity sector – government – and away from the greater prospects for growth that may exist elsewhere. A healthy economy should provide strong investment returns in many different ways. It should not require government to give special treatment to some groups in society – in this case, pensioners – by guaranteeing them a 4% return on its own bonds (at the expense of taxpayers) while others struggle to find the same elsewhere.

The change in ISAs is the strangest of all. Is there a downside to retail savers having the choice to send their money to work in the equity market? Apparently, yes. The already strong disincentives against equity in the UK needed to be strengthened that little bit more.

There are some countervailing measures. A higher investment allowance for plant and machinery. Help for energy intensive industries. Some additional credit provided by the government for exports. The Chancellor used to talk about rebalancing the economy. He seems still to mean it. In the end the most frustrating aspect of this Budget is that it picked the right targets: makers, doers, savers. But no one connected them up.

Note: This article gives the views of the author, and not the position of the British Politics and Policy blog, nor of the London School of Economics. Please read our comments policy before posting. Home page photo credit: www.LendingMemo.com

About the Author

Emran Mian *is Director of the Social Market Foundation*