How to pay for a Green New Deal: Putting savings to productive use

The UK needs a major programme of investment in order to move our economy beyond fossil fuels, improve our public services and tackle the cost-of-living crisis. This is one of five briefings summarising how that investment can be paid for. To read the other briefings, visit greennewdealgroup.org.

Background

There has been widespread debate on the necessary cost of the investment required to fund the UK's transition beyond fossil fuels. Estimates vary from requiring £30 billion to more than £100 billion a year, depending in no small part on whether it is assumed that the state or private sector leads funding of much of this activity.

Whichever of those assumptions is made, politicians have expressed considerable concern about their ability to fund any part of that investment that falls upon the state. The Labour Party's recent backtracking from its commitment to invest £28 billion a year over the lifetime of the next parliament to achieve this objective is a clear indication of this.

In practice, in a country that has net financial worth of approximately £8,100 billion, this inability to raise funds for this critical purpose is hard to understand. That is most especially true when a combination of data from the ONS, HMRC, and other sources suggests that more than 80% of the UK's net financial worth is invested in either tax incentivised pension funds or tax incentivised Individual Savings Accounts (ISAs).

The rules associated with securing tax relief on the savings placed in these funds can always be altered by government. At present, very few restrictions are placed on the use that might be made of the funds saved in such accounts. The Finance for the Future partnership, made up of Green New Deal Group members Colin Hines and Richard Murphy, has suggested changes to those conditions.

ISA accounts

Approximately £700 billion is currently saved in ISA accounts. Approximately £70 billion per annum is contributed to such accounts. Part of this sum is recycled from accounts that have closed, but that fact has no material impact on the recommendation made here. Approximately 45 per cent of ISA balances are saved in cash, and the rest in shares. Subsidising ISA savings now costs approximately £4 billion per year.

The justification for the tax-free status of ISAs is that it encourages people to save, reducing costs to the state if people fall on hard times. However, when 40% of people have less than £2,000 in savings, this subsidy on savings of up to £20,000 a year appears poorly targeted, with no obvious payback to society.

To create a benefit for society from these savings in a way that ensures that funding for the necessary investment in the green transition is made available, Finance for the Future suggests that all existing ISA accounts be withdrawn in the future, to be replaced by a new range of green ISA accounts. These will provide two savings options.

The first option would be to save in cash. The sums in question would be made available to a UK Green National Investment Bank which would then use them as the capital to invest in measures such as zero-carbon transport, social housing and renewable energy infrastructure. Interest at competitive rates would be paid by the Investment Bank to the account holders. The government would guarantee to make good any shortfall in the sums needed to do this. However, given that much of the investment that this sum would fund would be in public sector assets in need of urgent renewal, this should never be an issue. Given that interest rates should be competitive with that from commercial banks, the current ISA cash saver should notice virtually no change in their savings arrangements as a result of this.

It should also be possible for these ISA savings to be invested in shares or savings bonds issued by other organisations, subject to strict control of the use that those organisations, whether they be banks or public or private companies, might make of the funds. It would be necessary that this money be used as capital to fund new investment in the green transition. Subject to this requirement, if the saver wanted to take the risk of a variable rate of return, then this option should be available to them. Almost all forecasts suggest that the generation of profits from this activity is possible.

Together, these two reforms should continue to make ISAs as attractive an option for savers as they are at present. In that case this reform could, by itself, release around £70 billion a year for investment in the transition.

Pension funds

The precise sum paid into pension funds in the UK is hard to determine because there are so many varieties of funds. However, it is known that the cost of tax relief provided to these funds exceeds £65 billion a year – more than the £50 billion a year the Climate Change Committee says is needed in investment to reach 'net zero'. This is made up of a combination of income tax relief, national insurance contribution relief, corporation tax relief and the cost of the tax-free accumulation of funds within these pension arrangements. As is the case with ISA accounts, there is no real requirement imposed upon pension funds holding these savings to provide any return for the benefit of society in exchange for this subsidy. Given the scale of the subsidy, it seems appropriate to add some conditionality to reflect the need for decarbonisation.

Finance for the Future proposes that one quarter of all new annual pension contributions should in future be required to be invested in arrangements similar to those outlined above for ISAs, meaning that the money would be used to fund capital investment in green measures in the UK.

It is likely that this pension proposal might release £35 billion of new funding for investment in the transition as a result. Given that pension funds save considerable sums in fixed-interest bonds already, it is unlikely that this proposal, which has an implicit government guarantee of a fair return built into it, will affect future pension performance. It will, however, help secure the prosperity of the society in which tomorrow's pensioners will be living.