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U.K. Plans to Use Pension Funds to Jumpstart Economy

The announcement of this plan came before growth figures were announced by the Finance Minister. The news so far has been very bad. Retail sales fell at the fastest pace in two and a half years. The unemployment rate is at a 15-year high. The national deficit, which has hovered around 11 percent of GDP is not getting better. The OECD forecast on Monday that Britain would slide into a modest recession next year.

The next day the British government announced that growth would be slower than previously believed and that it would need to borrow more money and would not be able to cut the budget as much as projected. George Osborne, Chancellor of the Exchequer, told Parliament that "debt will not fall as fast as we'd hoped." The response of Britain's public unions was to call for a general strike on November 30, which will cause slowdowns at airports, hospitals, and schools. Osborne also added, "If the rest of Europe heads into a recession, it may be hard to avoid one here in the U.K."

That is another major economic concern that Britain faces: the connection of the nation with the fate of European nations makes the prognosis for British recovery more dim. The collapse of confidence on the continent, especially in nations like Italy whose economy is comparable in size to Britain, means that the demand for credit to support creaking governments like Greece and Italy, as well as the drop in demand for British goods owing to less disposable income in Europe, means that no external prosperity can do much to help the British economy. Credit abroad, also, is going to be very hard to raise.

There are a couple of serious problems, however, with tapping pension funds.

First, those who administer pension funds have a fiduciary duty — an obligation of trust — to those who are current or future pension recipients. While it is quite true that public pensions and entitlements have zoomed past actuarial soundness throughout the industrial democracies, that does not change the special character of these funds. Prosperous economies are built upon trust, and this duty of trust ought to be greater when the contributions are largely involuntary, as are employee contributions to public pension funds. Indeed, the crisis facing Europe today can only be addressed by honorable and prudent accounting for funds.

Second, pension funds are already invested in a portfolio of investments, so divesting pension funds of current investments will simply take money out of one part of the economy and put it in another part.

Although construction projects always look appealing to statist politicians trying to create jobs, as America's recent experience with "shovel-ready jobs" would suggest, individuals and private companies are much better judges of good investments.

Nevertheless, pundits have already begun to praise the plan. Some cite the need for infrastructure spending in Britain, although it might be instructive that when the British government was spending huge amounts of money — for the size of the British economy — these presumed infrastructure needs were, apparently, ignored. The usual areas of public school systems and transportation systems are the targeted areas. As in American politics, those areas are raised as reasons for "investment" spending by the government, but those ought to have been sufficiently funded already.

What is the solution for Britain? Liberating individuals to produce, reducing regulation (especially environmental regulation), moving away from the uber-statism of the European Union, reducing tax rates, and privatizing as much of the economy as possible are all reasonable approaches. Raiding pension funds for expenditures intended to "stimulate" the economy, however, is a proven failure. This is an approach that Gordon Brown used in 1997 (by ending tax credits on certain pension funds.) It did not work then. It will not work today.