

Capital Has Alternatives: What the Burnham Agenda Will Have to Prove to Financial Markets

Lionel Kruger | September 2026

Prime Minister Andy Burnham's promise of a "new economic model" has arrived at an unusually unforgiving moment.

His government wants stronger public control of essential services, greater regional investment, reindustrialisation and more active collaboration between public and private capital. None of those ambitions are inherently hostile to financial markets. The more immediate question is: how will they be financed, what returns will they generate, and who ultimately bears the risks?

That question has become more pressing as Parliament returns. On 1 September, the 10-year gilt yield moved above 5.2%, its highest level since June 2008. Britain is therefore contemplating a more activist investment programme against an unusually expensive funding backdrop.

Darren Jones, until recently at the centre of government in his role as Chief Secretary to the Prime Minister, has warned that higher public spending alone will not make Britain richer. The observation matters beyond Labour's internal politics. Governments can determine how much they would like to invest. Markets help determine the price at which they can finance it.

Markets are not ideological

Bond markets do not have a political programme. They price inflation, debt sustainability, future taxation, institutional credibility and the supply and demand for capital.

Additional borrowing for productive infrastructure is therefore not inherently problematic. A railway, electricity network, housing programme or digital network that genuinely raises productive capacity can improve an economy's long-term fiscal position.

But borrowing and investment are not synonymous. If markets conclude that expenditure is unlikely to produce an adequate economic return, the result is not necessarily a buyers' strike. More commonly, investors simply demand a higher yield.

That matters well beyond Whitehall. The government bond curve is the starting point for the pricing of much of the rest of the economy. Higher gilt yields ultimately flow through into corporate borrowing, infrastructure finance, mortgages and investment hurdle rates.

A government can therefore find itself in an uncomfortable loop: spending more in an attempt to stimulate investment while simultaneously increasing the cost of capital against which that investment has to compete.

Pension capital: encouragement or direction?

The tension is particularly visible in pensions. There is an entirely rational case for wanting more British pension capital invested in productive assets. Infrastructure, in particular, can provide the long-duration and sometimes inflation-linked cash flows that pension investors seek.

The Mansion House Accord is already pushing in this direction. Seventeen major defined-contribution providers have committed voluntarily to invest 10% of their main default funds in private markets by 2030, with 5% earmarked for the UK. Government has also retained a reserve power on asset allocation if voluntary progress proves insufficient.

Here international experience is useful. Canada demonstrates conclusively that pension funds can be major infrastructure investors. Large Canadian institutions have built specialist teams investing directly in power, transport, utilities and other infrastructure around the world. But that final phrase matters: 'around the world'. They invest where they judge the risk-adjusted proposition to be attractive, not simply where policymakers would prefer their money to go.

South Africa provides the cautionary comparison. Having worked in South African capital markets through the legacy of prescribed assets and the subsequent development of a sophisticated infrastructure finance market, I think the distinction is important. Modern pension regulation permits substantial infrastructure exposure - up to 45% under Regulation 28 - but leaves the investment decision with trustees. Enable the investment; do not manufacture the demand.

That is the relevant lesson for Britain. The question is not whether pension funds should invest in UK infrastructure. They should, where the proposition is attractive. The better question is whether British infrastructure can compete for their capital against opportunities elsewhere.

Public control still needs private capital

Burnham's programme creates another tension. He wants greater public control over essential services while seeking substantial private investment to support regional growth, infrastructure and industrial development. Those objectives are not mutually exclusive. Public control does not necessarily mean public financing.

But the risk allocation has to work.

Private finance normally costs more than government borrowing. That does not make it intrinsically inferior. The relevant test is whether better delivery, whole-life discipline and genuine risk transfer justify the financing premium.

Britain's experience with PFI is instructive. The problem was not simply that private capital was expensive; in some cases governments paid to transfer risks that were not genuinely transferable, while long contractual structures reduced flexibility as public service needs changed.

A revived partnership model should therefore start with a harder question: which party is actually best able to manage each risk, and at what price? If government ultimately retains a risk in all but name, paying somebody else to hold it contractually does not create value.

That principle becomes increasingly important if the government simultaneously wants more infrastructure, more public control and more institutional capital. Private investors will want clarity over regulation, revenues, political intervention and the circumstances in which government may change the rules. Uncertainty has a price.

Capital has alternatives

This may ultimately be the most important constraint on the Burnham economic model.

Britain needs infrastructure investment. It also needs private capital, pension capital and international capital to help provide it. But none of that capital is captive.

A pension trustee can invest elsewhere. An infrastructure fund can choose another jurisdiction. A lender can reprice the risk. A global investor can buy another sovereign bond.

The role of government should therefore be to improve the proposition: produce credible project pipelines, accelerate planning, allocate risks sensibly, maintain regulatory consistency and structure projects capable of delivering returns commensurate with their risks.

Regional investment can be economically transformative. Public intervention can unlock projects the market alone will not initiate. Private finance can improve delivery where risks are allocated intelligently. Pension capital can be exceptionally well suited to long-term infrastructure.

But none of those propositions removes the need for investment discipline.

Burnham's economic experiment should therefore not really be framed as state versus market. The more interesting question is whether an activist state can use markets effectively without attempting to override the signals those markets provide.

Because ultimately governments, infrastructure projects and businesses are competing for the same thing.

Capital has alternatives.

And Britain will have to give it compelling reasons to stay.

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