If I were Chancellor...

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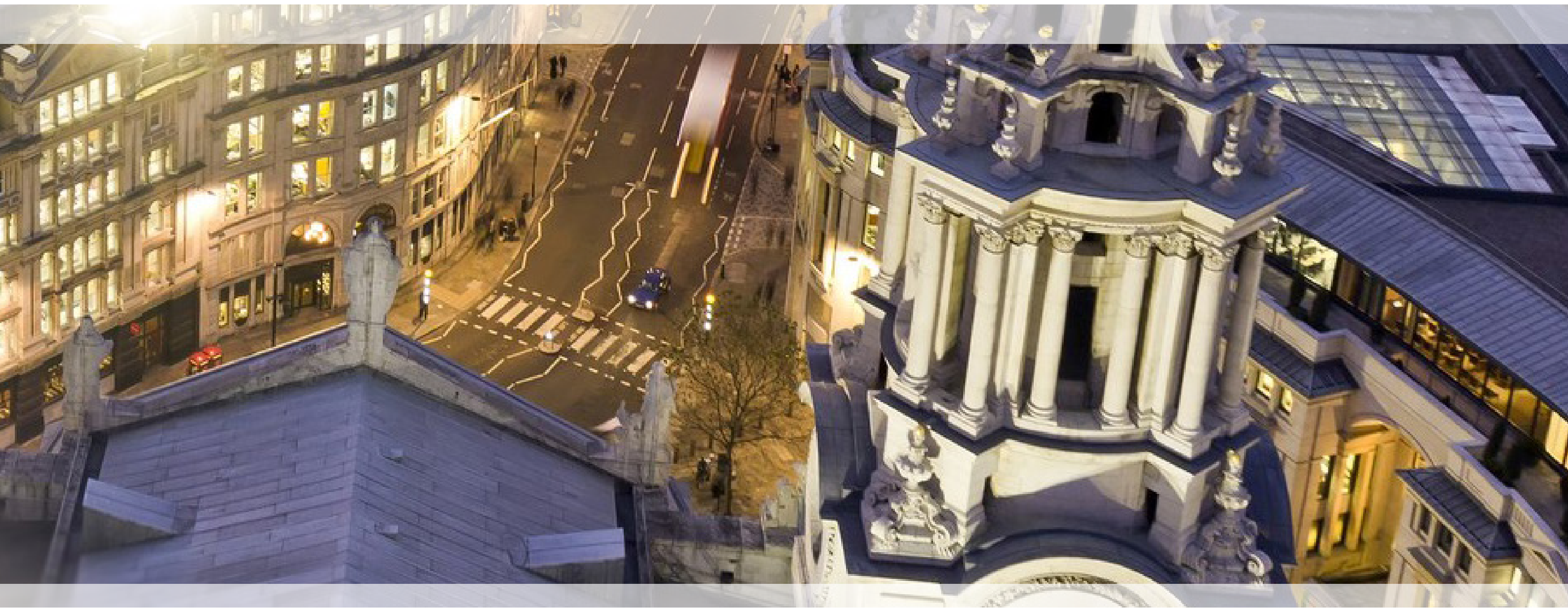

A collection of essays from Labour in the City

WELCOME FROM CICERO

Cicero is delighted to support Labour in the City in the publication of its first policy pamphlet. Through our role as a leading public affairs consultancy, representing many of the major British and global financial institutions in the City of London, we recognise the importance of creating a deeper dialogue between those working in the financial sector and those working in the policymaking community. This publication marks a significant contribution to that dialogue.

Against the backdrop of the banking crisis, and the era of austerity which has been ushered in since 2008, there is understandable public and policymaker concern at the role of financial markets, and their ability to address Britain's long standing ills, many of which are addressed in this publication. Notably, this concern focuses on the need to encourage greater long-term investment, boost access to both debt and equity finance for businesses and households, and address the regional and sectoral imbalances within our economy. Britain cannot afford to rely too heavily on London and its financial district.

While this debate has justifiably led some to call for a more responsible and 'socially useful' financial sector, we must recognise the undeniable benefits the financial sector already creates for the UK, adding nearly £200bn in Gross Added Value to the UK economy in 2011, supporting over 2 million British jobs directly and indirectly, and providing an annual trade surplus of £47bn. Faced with such benefits, it matters greatly that future Chancellors understand the role the sector plays in underpinning the UK's prosperity and, just as importantly, come forward with sensible reforms which are sensitive to the globally competitive market place within which UK financial services operate.

Ultimately, we do need to rebuild and strengthen the relationship between wholesale financial markets in the City of London and the rest of the UK economy. Our financial services have been successfully exported all round the globe. Now we need ensure that the sector does all it can to support the needs of the domestic economy too, and help to build the more prosperous and fairer society that we would all like to see. To that extent, this publication provides a welcome and timely contribution to the ongoing debate taking place in the UK.

It also provides a very useful contribution to the Labour Party's ongoing policy review process ahead of the next general election in 2015. Should Ed Balls become the next Labour Chancellor, he will be faced with a daunting challenge; in the short-term, he will need to balance the public finances in a way which leads to fair outcomes for all parts of UK society, while in the long-term, address the deep-seated imbalances in the British economy enabling the UK to prosper in the globalised economy of the 21st century. This report will certainly provide the next Labour Chancellor with plenty of food for thought.

Mark Twigg

Executive director of Cicero
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CICERO

FOREWORD

Labour in the City holds social, networking events for Labour supporters working at all levels of the UK financial services sector. We don't advocate for particular policies but we do provide a platform for debate, and a place where like-minded people can come together.

We are a political organisation - constitutionally we are part of the Labour Finance and Industry Group - and we are run informally on a voluntary basis. Our mailing list is around 500 strong and includes people working at all levels of the financial services sector: from board-level to backroom services. To get on the list, e-mail labourinthecity@lfig.org

Many of our members by virtue of their work are constrained from speaking out. Others are not. This, our first publication, contains some of the ideas of the latter group. The views represented are entirely the authors' own and do not represent either the views of their organisations, or Labour party policy. We will however be submitting this publication to the Labour party's policy review as our contribution to that work in progress.

We asked our network to describe, in around 1,000 words, the top policy they would introduce if they woke up one morning and found themselves Chancellor of the Exchequer. The resulting short essays throw some interesting and often controversial new ideas into the mix ranging from tax, national insurance and welfare reform through to using regulation to shape markets to achieve wider public policy goals.

A consistent theme is the desire to channel the activities of wholesale markets to support communities, be it through regional regeneration, support for SMEs, helping individuals and households save more, or to achieve wider environmental and international development objectives.

Some of the contributions contradict each other, but each deserves discussion on its merits. Taken together, they show that Labour people working in the financial services sector have an expertise that deserves to be listened to.

We are grateful to Cicero for their help in getting this document published and look forward to the debate that ensues.

Kitty Ussher
Maneesh Sharma
Graeme Henderson

Co-founders of Labour in the City
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1 - Fair and Efficient Taxes

INVERTING THE WELFARE STATE by Avinash Persaud

If I were Chancellor I would do three radical things to unleash the productivity of all Britons and make the country a richer, fairer place that offered real opportunity for all.

First, I would turn the public sector upside down. Over 50 years of poverty-eradication efforts and studies around the world have shown that the most effective way of helping poor people stand on their own two feet, to invest in their future and their children's future, is to give them money – directly. This cuts at the paternalistic liberal who believes he or she knows what is best for poor people. And it runs against the callous conservative who believes that if they were to give the poor money they would squander it, lose it, smoke it or drink it away. Countless studies suggest otherwise.

I will be denounced at Labour Party Conference for this would appear to threaten the sizeable public sector middle-class being relatively well paid by the State to provide public education, health and housing and other services. In some cases being so sufficiently well paid that many can afford to send their kids to private schools, go to private doctors and live in upmarket estates lest they suffer at the hands of unsatisfactory state provision. Next time you are at a public hospital compare the jalopies in the patients' car park with gleaming Mercedes' in the doctor's car park. This is not a criticism of these truly noble professions, but a criticism of the system in which they are employed and paid. It is an expensive system that does not, in general, allow the poor to break out of the cycle of poverty and disadvantage nor shake the walls of Eton.

This idea builds on the notion and pride in citizenship where responsible, law-abiding citizens, who pay taxes, vaccinate their kids and send them to school are conferred a minimum income. An income, independently assessed, funded through the removal of State provision, which incentivises the private provision of good, affordable education, health, transport and housing and gives the poor real choices. Divide up public education and health budgets and give each average family £11,000 a year instead to spend as they chose, or perhaps £15,000 if you claw some of this back from high tax payers, while religiously avoiding the benefit trap. Give the poor market power rather than make them beholden to a bossy State. Yes, this would need to be augmented with muscular regulation of schools and hospitals and heavy sanctions for those who try to take advantage of vulnerable people. The "left" should be about helping all achieve to the best of their abilities and removing the disadvantages of poverty, not protecting State monopolies.

At this point, I would be removed from office. If, however, God turns out to have spent his apprenticeship years waiting several hours to be seen by a doctor, and I have miraculously survived, I would then turn the tax system upside down. The tax system benefits the debt-financed ownership of assets at the expense of making these assets productive. I would raise the threshold on taxes on labour, like income tax and national insurance contributions and replace the lost income with greater taxes on the ownership of assets, like property and wealth taxes. These are incidentally far harder to avoid or fiddle. Not only would this greatly increase the returns to employing people, thereby boosting output and lowering unemployment and incentivise owners of land to make good use of it, but it also means a significant proportion of taxes would be paid by foreign-resident owners of UK, especially London, property. Wealthy Russians, Arabs and Indians will be contributing to my earlier re-distribution plans. Conference will welcome me back with open arms. Ideally, I would eliminate income and corporation tax and replace them with property and consumption taxes, but this would be too dramatic a change to do in one fell swoop and if you did it in phases you would allow those opposed to the policy time to muster. The power of doctors and teachers pales into insignificance when compared with the power of the landed classes, and just as importantly, those who aspire to be landed classes. I would most certainly not be around to implement my last policy that would dare to tackle an industry more powerful than the landed classes and even, the defence industry, which is the banking industry. I say this as a former banker myself.

It has been fascinating to watch the industry launch a massive broadside against the European financial transaction taxes using silly arguments that ignore proportionality and if logically extended would argue against any tax whatsoever. We are told that Armageddon would befall the world economy if the Europeans impose a tax that is in fact one fifth of the UK's stamp duty on share transactions, which despite not being updated, still raises £3bn after 30 years of financial innovation. We are not told of course how the twelve other countries, including the sizeable financial centres of Hong Kong, Zurich, Seoul, Taipei and Mumbai, have avoided Armageddon and indeed, managed to grow their economies at a more rapid pace than the UK, while having stamp duties on security transactions that raise over USD$23bn per year.

The economic effect of a 0.1% tax on the legal transfer of ownership of securities is just the same as a 0.1% widening of the bid-ask spreads back to where they were in developed markets ten years ago, when oddly enough we did not have Armageddon. The effect must be one-tenth of the effect of total transaction costs when all administrative, research, price-impact, brokerage, clearing and settlement fees are taken into account and estimated by pension funds at close to 1.0% for liquid instruments and even more for the less liquid. The trader-centric financiers neglect to mention these costs that are automatically passed on to customers. The reality is that the industry is highly averse to the transparency that would be shone over transaction costs as a result of this tax, and even worse, has become addicted to high frequency trading. Indeed, one of the key benefits of this tax on churning would be to shift the industry back from short-term trading, where the incidence of the tax will be greatest, to long-term investing where it will be least. This will help to make our great financial centre more fit for the purpose of financing economic growth rather than creating great citadels of value that every seven years turn out to be mere sand castles.

At this point, I would become the first Chancellor of the Exchequer to have been shot - but it would have been worth it.

Avinash Persaud is the Non-Executive Chairman of Elara Capital Limited and Intelligence Capital Limited; Executive Fellow, London Business School and Emeritus Professor of Gresham College.

CUT VAT, INTRODUCE A LUXURY VAT AND A PROPERTY TAX

by Saker Nusseibeh

In more ways than one, the funeral of former Prime Minister Thatcher marked the end of an era. Her rise in 1979 marked the shift on both sides of the Atlantic towards the almost dogmatic adoption of Friedman's economic ideas, not just in terms of monetarism, but also in terms of an absolute belief in the ability of markets to achieve balance with minimal government interference. It was the start of the age of individual aspiration that sanctioned personal greed that ultimately led, culturally, to the crisis of 2008. The ascendency of the Chicago school was as much about politics as it was about economics. This belief in free markets was ideologically a counterweight to what was seen as the socialist alternative of State intervention. Thus Friedman became the sage listened to, not just by Thatcher and Reagan, but also by Pinochet. Even when Mr Blair came to office, such was the dominance of this economic orthodoxy that he essentially accepted its basic premise, as does the current coalition government. Yet evidence from around the globe post 2008 is making it abundantly clear that the views of the Chicago school were flawed.

As Chancellor, I would aim to achieve two objectives. First, I would seek to win over the hearts of the electorate. The Labour Party was founded to look after the interests of the weak, the poor and the economically disenfranchised. While it is right and proper that the Labour Party should look after the affairs of all citizens, including the middle class and the better off in a "One Nation Britain", it is equally valid for a Labour Party Chancellor to help the less well off in society, who under the current government have had to bear the brunt of the cost of 2008 through a combination of a slowing economy, lower benefits and deteriorating services. The very well off, on the other hand, kept most of the wealth they amassed.

At 52, I still remember the anger I felt as a student when VAT was increased from 8% to 15% under Howe. I understood then that this was an unfair tax because it was regressive. The Office for National Statistics calculated that in 2010 the poorest 20% of society spent almost 9% of their gross income on VAT while the wealthiest 20% spent only 4% on VAT. It is, in other words, a tax on the poor. So, one way to redress the balance after the top rate of tax was cut from 50% to 45% would be to cut VAT, say by 5%, equivalent to the tax cut given to the wealthiest segment of society. One could go even further, and re-introduce the concept of 'luxury VAT' on items that cost more than, say £1,000 at the current level of 20%. The message is then clear that this Chancellor is more caring towards those with the greatest need. Moreover, it is not a handout, and so encourages production.

However, the cynic would point out that VAT revenue runs at around £100 billion, so cutting this by £25 billion would negatively affect the credit rating of the Government. I disagree. The Government is engaged in the process of printing money to try to stimulate growth through quantitative easing. However, the net effect of this programme is simply to bolster the balance sheets of banks, whose assets of nearly £6 trillion contain only £200 billion of loans to SMEs. Higher capital requirements mean the money printed is simply re-deposited by the banks with the Bank of England and not stimulating the economy. In other words, parachute money is not working. Keynes would have advocated a direct stimulus to the lower end of the economy. Such a cut would do just that. The poorest 20% of our society can barely make ends meet, and their additional spending will not only alleviate their economic situation, but also help stimulate smaller businesses which in turn would feed into the wider economy through the multiplier effect.

Another effect of quantitative easing has been to create an asset bubble in the top end of London's housing market as foreign buyers drive prices to unprecedented levels. Beyond a very small minority, this does not affect the wider economy positively, especially since many are effectively absentee landlords. I would therefore introduce a graded property tax starting at 1% annually for properties valued at £2 million. This avoids most of the middle class and is equivalent to property tax levied in several towns in the USA (the home of free markets). This tax would rise by 1% at each additional million of valuation to a maximum of 5%. Revenue thus raised can be used for additional welfare spending. This may be unwelcome to the super rich, but since most manage to avoid paying their full share of tax, this is a fair tax and would have the additional benefit of gently deflating the property bubble at the very top end of the market.

Finally, I would fundamentally change the investment banking culture that produced the crises of 2008 by introducing unlimited personal liability partnerships to those who engage in risky activities that might have an adverse systemic impact. This would have a double effect. It is fair in that the current system allows investment bankers unlimited upside earning potential, with the only downside being their removal from the ability to make more money while keeping the fortune they amassed. This proposal would mean that in future that such individuals would have to financially participate in repairing any damage they might have caused. Its secondary effect, which is beneficial to the free market system, is that it would act as a far better control on risk than any amount of regulation. After all, as we saw from the corporate tax debacle, wealthy companies, like wealthy individuals, are very adept at circumventing the spirit of any regulation, especially given the resources they can dedicate to doing so. Incidentally, that was the norm in the past and even Chris Dodd, the Congressman who sponsored the Dodd-Frank act in the USA, supports such a move.

These three simple steps would achieve two objectives. They tilt government policy from favouring the very rich to helping those with the greatest need, staying true to the spirit of Labour and a One Nation Britain. Secondly, they go some way towards repairing the ineffective policy of quantitative easing by stimulating the bottom end of the economy which needs the stimulus most and diffusing a possible threat from an unintended asset bubble in one small part of the economy.

It is a policy that appeals to our hearts, but it should also appeal to our minds in that it is the most effective way of dealing with our flat lining economy and establishing a sounder base for a long-term financial system that is so central to our future growth.

Saker Nusseibeh is Chief Executive and Head of Investment at Hermes Fund Managers. He is also the Chairman of the 300 Club.

IDEAS TO RE-SHAPE THE UK ECONOMY by Tom Brown

When Ed Balls becomes Chancellor of the Exchequer, he will inherit an economy which has been starved of investment in both the private and public sectors, where the iniquities and distorting incentives of the tax system have been exacerbated and non-stop Europhobia is causing the wider world to question whether Britain is serious in its commitment to the modern world. He will face a Herculean task but must not shy from some early radical announcements to show that a Labour Government means business in balancing the budget with a credible medium-term plan which includes a tax system shifting the burden from those active economically to those getting a risk-free ride.

Let's start with the City of London. George Osborne has wasted 3 years with a needless structural revamp of domestic financial services regulation when it was obvious that the main action had shifted to Europe. Undisguised hostility towards the euro – which cannot be insulted away as UKIP and most Tories would like – has left the UK friendless in the EU (and even in Washington and Beijing). The best interests of the City are in supporting the Banking Union (like Poland). The UK should drive the introduction of a Financial Transactions Tax, raising billions for the Exchequer, with no negative impact on the "good" City which advises and finances real businesses, but rightly targets the "bad" city of spread-betting, programme-trading, speculation and portfolio-churning, which, as Lord Turner observed, serves no social purpose. Income and Capital Gains Tax rates should be aligned: a lower CGT rate distorts investment products and decisions; on this, Lord Lawson is right (if alarmingly wrong on Climate Change). "Ring-fencing" of retail banks is half-baked as enacted by the Coalition and could drive retail banking offshore. If the ring-fence is legally effective, the risk capital penalty compared to the parent bank should be removed; banks having no common ownership with an investment bank could be promoted through a lower ratio.

The UK tax system has fossilised and has shifted the burden too much to individuals in employment and SMEs, while too many large corporations get a "free ride" and negligible tax is raised on randomly accumulated generational wealth. The solution to the "Starbucks" problem is to split corporation tax into a 5% tax payable on UK sales offset against corporation tax paid on profits but not losses. Relief for start-up businesses could be granted against Employers' NI, to be renamed "NHS Contribution" to emphasise the good deal which employers get from the NHS instead of having to pay for medical insurance. A permanent VAT cut should be financed by widening the base, in some cases at the lower 5% level, to postal and financial services, all digital downloads, air, coach and rail fares. If income tax and employee's NI were merged, the wider base including non-employment income would hand increased take-home pay to those in employment and on lower incomes, but increase the tax take. Reform of local government finance and property tax should return to the principles of the old rates, with modern technology enabling annual changes in rateable values (both up and down) with rate rebates for those on low incomes. The result will be that central support can be cut from wealthy boroughs and concentrated in economically challenged areas. More freedom to set domestic and business rates could be returned to local government, if it goes hand-in-hand with electoral reform for English council elections (following the Scottish model) , and a transparent system of central support based on aggregate per capita income reported through the tax system. This is an essential part of rebalancing the economy to enable Birmingham and the UK's other great regional cities to prosper alongside Central London.

Privatisation has created in some cases "rentiers" worse than public monopolies. A re-launched British Railways should always compete against the private sector (as in Germany) and only if there is a clear-cut, guaranteed financial advantage for the Exchequer should private operators be granted rail concessions. We've ended up with the idiocy of UK taxpayers guaranteeing a return to a French state-controlled utility to build nuclear power stations. The revival of a British nuclear industry is vital to future low-carbon security of electricity supply. The ballooning of the housing benefit budget is scandalous but capping it individually, when the supply-side is blocked, and CGT lower than income tax, still makes buy-to-let look like a one-way bet for landlords. German cities have well-supplied private renting markets because they are well-regulated with landlords able to pass through rent increases to cover a return on improvements and inflation, but not gouge tenants for every last penny.

Where to start on infrastructure? The Coalition's approach threatens to saddle the taxpayer with white elephants. The economics of HS2 are dubious and quicker gains will be achieved by investing in longer trains and electrification of existing lines and road improvements. Boris Johnson's new airport fantasy is fatal for London's competitiveness, when the only realistic options are expanding Heathrow and Gatwick – which Labour must not flinch from when modern planes are getting quieter and quieter.

The easy part for the next Chancellor will be to stop withdrawing demand from the economy when it is already flat-lining. The challenge will be to radically reshape taxation, banking and an active role for the public sector to reflect the realities of the UK in the Europe of the 21st Century, not the 19th. Labour must show the way.

Tom Brown has had a 34-year career in the City, latterly as Managing Director and Senior Credit Executive of Nord/LB, a German regional bank based in Hanover with branches in London, New York, Singapore and Shanghai. He previously worked for Deutsche Bank, Royal Bank of Canada, Bank of America and NatWest. He has been a non-executive director of a cable tv and internet company in Cologne, is a member of the Advisory Board of the Risk Management Association in Philadelphia and is Chair of the Governing Body of a London primary school. The views expressed are those of the author personally.

SUGGESTED BUDGET PROPOSALS: MEMORANDUM FROM THE TREASURY TEAM TO THE CHANCELLOR

by Robert Rhodes QC

Dear Chancellor, please find below our suggestions for turning round the economy and injecting more fairness. We call it 'Plan B'.

1. Tax reductions:

1.1 Stamp duty land tax on residential properties:

Proposal: That stamp duty on the purchase of property be charged at stepped rates rather than an overall rate, except in the case of purchases by corporate bodies. Hence, if an individual buys a house for £1.5m, at present the SDLT charged would be 5% of that figure, i.e. £75,000. Under our proposals, the SDLT would be reduced to (£1,250 + £7,500 + £20,000 + £25,000) £53,750.

Rationale: It seems illogical that SDLT should be charged other than at stepped rates. Making this change will make it more affordable for people to move house. At a time of considerable housing shortage, this strikes us as being of particular public benefit in encouraging older householders to move to smaller accommodation more suited to their needs. We have excluded purchases by corporate bodies because the public benefit we have identified does not seem to us to include them.

1.2 Personal tax allowance:

Proposal: That the income limit of £100,000 for the personal tax allowance be removed.

Rationale: This raises very little by way of tax, is regarded as unfair by those whom it affects because it means that they suffer what on any view is a disproportionate marginal rate of taxation, and is cumbersome to administer.

1.3 Capital gains tax:

Proposal: That indexation relief be introduced on all chargeable gains.

Rationale: It was extraordinary when the Conservative Chancellor, under Lib Dem pressure, made his ill-judged changes to CGT at the beginning of the Cameron administration. The effect of having a 28% CGT rate with no relief for indexation and no tapering, means that the Conservative Party has become the party of confiscation since the tax on a long-held asset takes no account of inflation. It was something of a surprise when the Labour Party did not make more of this at the time. The proposal has the twin advantages of fairness and of electoral popularity. We have in mind in particular the case of old people who have to sell long-held possessions in order to fund care.

1.4 The cost of the above:

Our research indicates that the cost of the above proposals will be more than outweighed by our proposals for tax impositions or increases in Section 2 below.

2. Tax impositions or increases:

1.1 Subsidiary or associated companies of foreign companies:

Proposal: That subsidiary or associated companies of foreign companies with an annual UK turnover in excess of £1m either (a) do not receive tax relief on licence fees (or similar) or loan interest paid to foreign companies or banks; or (b) be subject to a 5% turnover tax.

Rationale: The easy avoidance of UK taxation by large multi-nationals such as Amazon and Starbucks is a scandal. The first suggested proposal should result in substantial corporation tax benefits to the UK Treasury because of the disallowance of the very large sums currently paid in those ways. The second suggested proposal has the advantage of simplicity. We appreciate that these proposals will require fine-tuning, and suggest that this be done during Parliamentary debates on the Finance Bill after we have had the advantage of seeing what the financial press and tax accountants identify as the potential loopholes in the proposals.

1.2 Use of motorways:

Proposal: That motorway tolls be imposed for use by private or business vehicles. The precise amount of charges and the ways in which they should be collected will be put out for consultation.

Rationale: There is huge congestion on motorways. This causes great expense to business. In addition, the UK is in severe need of greater numbers of motorways. Continental countries have tolls as a matter of course for those using their motorways. This proposal should have the double benefit of significantly reducing congestion on motorways and raising for the Treasury substantial sums, part of which can be made available for improvements to the country's motorways.

1.3 Winter fuel allowance:

Proposal: That the winter fuel allowance paid to all pensioners be taxable.

Rationale: This is a benefit that most, but by no means all, pensioners need. Means-testing would be both humiliating for those seeking it, and expensive to administer. Making it taxable seems to us to be an administratively convenient way of ensuring that the substantial cost of this allowance is fairly reduced.

3. Changes to allowances:

3.1 Pension provision:

Proposal: That the amount available by way of tax relief in respect of annual pension provision be increased to £200,000 but that the relief be restricted to the basic rate of tax.

Rationale: The significant reduction in tax deductibility of pension provision is another of the Coalition Government's more bizarre ideas. It is clearly in the public interest that people be encouraged to provide for their pensions, so as to minimise the risk of the cost of caring for them in old age falling upon the State. According to our research, the restriction of relief to the basic rate of tax should means that the provisions are essentially tax neutral.

The Treasury Team

Robert Rhodes QC is a Bencher of the Inner Temple, a Fellow of the Chartered Institute of Arbitrators, a Recorder of the Crown Court, and practises from Outer Temple Chambers.

2 - A Fairer Economy, a Better Treasury

BEING CHANCELLOR

by Stephen Beer

The Treasury is an august building which has witnessed many events in our nation's history. Within its walls Chancellors and their officials have debated and agonised over economic policy and financial crises. The room from which Churchill waved to the crowds below on VE Day in 1945 is cherished. There is, however, no secret room within the bowels of the building which contains the levers by which our economy can be controlled. If only there were such a room. Yet we might imagine that, if there were, it would have seen better days. Dust, rust, and cobwebs would surround small levers in one corner, marked 'price and income controls'. In another corner, below a dim light, a red button marked 'IMF'. Along one wall we would make out a bank of gauges measuring the money supply and a series of dials designed to regulate it. Opposite would be a charred and burnt panel marked 'Exchange Rate Mechanism'. Nearby, a rather wobbly lever named 'Fiscal policy'. Finally, in the centre of the room would be a great hole where the largest lever of all used to be; close observation would reveal the name plate; 'Base rate control - rerouted to the Bank of England'. Our new Labour Chancellor will soon realise there are few levers to pull and they are unlikely to work very well anyway.

Of course, tax and spending policies can have profound effects on the economy. However, with some specific exceptions, their impact is not always predictable and often takes some time to be evident. We are in danger of forgetting that by the time stimulus measures come into effect, the economy may already have turned a corner. At the time of writing, there are signs it may be doing just that, though with many risks to recovery remaining. Even if the long-term trend growth rate has fallen, such has been the stagnation since the last election that we should expect some quarters of strong growth and it might be quite some time before we know if is sustainable.

A bit of growth might encourage forecasters such as the Office for Budget Responsibility to decide that the depression is more cyclical and less structural than they thought, implying there will be less deficit to cut. That would take some pressure off the current Chancellor, George Osborne. Unlikely as it may sound now, we should therefore not rule out that the next election will be fought against the prospect of tax cuts over the life of the next parliament. For Labour, arguing, rightly, that we would be better off if the austerity drive had not begun in 2010 (for which blame should be accepted by not only the Conservatives and Liberal Democrats, but the Treasury and Bank of England too), may have little impact. Making the point that Osborne has missed his fiscal targets may have little traction if the economy is growing. After years of falling living standards, the case for giving back some of the 'proceeds of growth' collected in tax is compelling. The Conservatives would have a once in a generation opportunity to shrink the size of the state by relaxing the pace of austerity not by tempering spending cuts but by cutting taxes.

From my perspective as a fund manager, managing equity and bond portfolios on a socially responsible basis, I believe there are three things a Labour Chancellor should do on assuming office. The first sounds easy but has not been consistently achieved. It is to set out a clear fiscal framework so businesses know where they stand. The second is to commit to a pro-City but radical policy. The third is to commit to a decade long programme of investment.

The next government is likely to come in with a new set of fiscal rules. The conventional wisdom decrees a party must announce a framework for deficits and debt by which others can judge it. This, it is believed, is the route to economic credibility. There is something in this but we have yet another government which has broken or fudged the rules. The rules matter when markets decide they matter. Together with a credible framework, the new Labour Chancellor should announce an Effective Spending Guarantee. Labour has to change its reacquired reputation for spending beyond our means, however unfairly earned. Not only should all spending be assessed for efficacy, but any spending above the government plans should be subject to an independent assessment with a guarantee that it will only continue if it delivers on its aims. Labour should also announce a clear taxation system for business for the life of the parliament. This will be worth much more than a handful of initiatives for small businesses. The aim is to remove uncertainty. Businesses can operate knowing the government will simplify the tax system and stop meddling with it.

Labour should also reform the City. It should embrace the City's strengths, competitive advantage, and contribution to the wider economy, aside from those times when banks run to the taxpayer demanding subsidy or nationalisation, that is. Whether or not other sectors of the economy do better in this recovery than on previous occasions, it is self-defeating to minimise the City's role. However, that does not mean we should go back to 'business as usual'. Bank reform must continue, with sceptical, conservative, regulators and durable structural reform of banking, and probably other sub sectors. Neither new rules nor ethical codes embed change by themselves. We need changes to institutions, such as separating banking activities, otherwise disaster will occur again. Different forms of company structure should be encouraged and protected. Excessive executive pay must be dealt with; the City cannot deal with this market failure on its own, as the short-lived 'shareholder spring' revealed. Finally, more incentives for funds to assess Environmental, Social, and Governance issues should be introduced.

A new Labour government should also commit to a decade-long period of investment. This should be the theme of the next Labour government. The downturn was not just an extreme cyclical event which required a temporary stimulus (the neo classical synthesis view which still prevails despite the crisis); more substantial, genuinely Keynesian, measures are needed to avoid a repeat. We should boost capital spending, borrowing more if necessary, and increase the pace of infrastructure investment (including digital infrastructure). Climate change solutions should be encouraged (the outcomes in terms of lower carbon emissions rather than the means). An investment programme should also include investment in people by dramatically increasing education investment over the period. The aim is to boost the productive potential of the economy. Together with a simplified tax system and an ethical and vibrant City, this will give businesses, including overseas firms, confidence that the UK is good place in which to invest. It will also mean we can reverse falling living standards in a durable way.

Finally, our new Chancellor should probably keep in mind the sobering advice of Edmund Dell, a former Labour Treasury minister, who in The Chancellors concluded that future Chancellors should act as follows:

"...His essential judgement should be whether his policy is robust; robust against the market, robust against errors in forecasting. He should not, whatever he does, claim more for his policies than that they seem optimal in the circumstances as he understands them. He should, so far as he can, avoid risk. Such a pragmatic conclusion is not the happiest conceivable outcome to so many years of experience, but it is the happiest possible."

Stephen Beer is Senior Fund Manager & UK Strategist at the Central Finance Board of the Methodist Church, which manages over £1bn of church and charity funds. He is the author of the Fabian Society pamphlet, The Credibility Deficit - how to rebuild Labour's economic reputation.

MECHANISMS TO RESTRICT THE HARMFUL CONSEQUENCES OF UNRESTRAINED BUSINESS ACTIVITY by Stephen Hockman QC

The financial crisis exposed some basic weaknesses in our capitalist system. But it was not until the Conference speech by the Leader of the Labour party in 2011 that there was an explicit recognition of the need for a more responsible form of capitalism. We need to explore how capitalism could be more responsible and what means are available to achieve this.

The difficulty in achieving a more responsible capitalism lies partly in the inherent nature of the capitalist system itself. The main purpose of establishing a limited company with its own separate corporate identity is to limit the liability of the individuals involved, whether as shareholders, directors or otherwise. The system rests on the assumption that even if those involved in the ownership and management of companies act for their own selfish ends, nonetheless the net result will be for the benefit of the community as a whole. Recent events have yet again called this assumption into question.

There are problems with limited liability, but the way forward cannot be to return to the pre-industrial era, when those involved in business remained personally responsible throughout. The way forward must be to develop mechanisms which will prevent the harmful consequences of unrestrained business activity, whilst at the same time allowing and encouraging such activity to continue to benefit the community through the production and distribution of goods, services, jobs, etc.

It seems logical to start by discussing mechanisms relating to the way in which companies are structured. The work of the Ownership Commission, chaired by Will Hutton, seems of notable relevance here. The Commission's recommendations included the need for more plurality of forms of ownership, involving "new mechanisms and tax concessions to support the build-up of equity capital in the medium sized family business sector". They considered that shareholders and directors should have the definition of their fiduciary obligations widened to include better stewardship, and for this to be enforced by closer links between the ultimate owners of the company and its managers. They say that institutional investors should be required to comply with the Stewardship Code. But a call for a duty of stewardship means little until this concept is defined and enforced.

Looking now at shareholders, there can be little doubt that their powers need to be increased, so as to enable shareholders to control more effectively the composition and remuneration of the board of directors. However, by itself, a measure conferring greater control on shareholders is likely to be insufficient, since shareholders, particularly those who have invested in more substantial and profitable companies, are themselves likely to be motivated primarily by the profitability of their own investment. The Kay Review, and the report for Labour by Sir George Cox, contain helpful ideas, but more detailed work is needed to turn these into credible and implementable policy.

Turning to the responsibilities of directors, in this area some progress was made by Labour in the Companies Act 2006, but there must be scope for greater progress here. It may be that the most promising approach for the foreseeable future will be to work on the development of codes of conduct like the Corporate Governance Code. The Labour leader has suggested that those in business, particularly in banking, ought to be bound by similar codes of conduct to those who work in teaching, medicine and the law. As he pointed out: "those professions have clear rules, codes of conduct which lay down what is expected. We need the same for banking, anyone who breaks the rules should be struck off".

On executive pay, the decision-making has historically been in the hands of the directors themselves. It now seems to be widely accepted that there should be greater involvement by the company's owners/shareholders and by its employees. The time has surely come for society to take a more active role in relation to systems of payment. At the centre of these arguments is the point that performance based remuneration should not generally be based on the paper value of transactions without any attempt to correlate that paper value with the true underlying value of the transaction to the company concerned. In the financial sector, new European rules limiting bonus arrangements are due to come into force, though it is too early to say how effective these will be.

We also need to consider introducing an entirely new regulatory code for investment management, perhaps based on the Code of Principles administered by the Financial Conduct Authority.

The issues involved in creating a responsible capitalism have been discussed only briefly in this short article, but what is increasingly clear is that a "Standing Commission on Responsible Capitalism", which could carry forward such proposals, and build on the work of the various temporary inquiries referred to above, is what we now urgently need. This is all the more necessary if the preferred mechanisms take the form – as is likely – of regulatory codes and guidance rather than heavy handed legislation. As Keynes observed, a system which works for the collective benefit also tends to maximise individual profit, but (as we have all observed much more recently) a system which fails to work for the collective benefit risks destroying individual profitability, and thereby destroying the system itself.

Stephen Hockman QC is a regulatory lawyer, Head of Chambers at 6 Pump Court, and Chair of the Society of Labour Lawyers.

FAIRNESS FOR FREELANCERS by Philip Ross

If I woke up as Chancellor for a day I wouldn't waste time patching up loopholes. If I had longer I'd reform or abolish national insurance, but I have one day so I'd introduce a new tax and employment model that would reflect the realities in the new knowledge economy. A model that would allow the self-employed limited liability, the ability to grow and invest but not the ability to circumvent tax and not a model suitable for tax avoidance.

When I started writing this the front page of the Metro was all about how about how a report from the public accounts committee had highlighted the 'big four' accountancy firms' conflict of interest in advising the government on tax reform while advising their clients on tax avoidance. It would be like a locksmith fitting locks during the day and then running evening courses for burglars.

Today I learnt that HMRC have been negotiating tax settlements with other big corporations. Instead of getting what they are owed they have instead 'settled' for lesser amounts. At least these corporations have been paying some tax unlike the recent revelations about Google, Starbucks, Amazon and others who have almost avoided paying any UK tax. It seems that they are content to run operations here and generate profits but not so happy to contribute to maintaining our infrastructure. It reminds me of a story my father-in-law told me. He lives in Wolverhampton while his sister lives in a well-to-do village outside the city and under a different council which pays lower council tax as they have fewer services since they can rely on their larger neighbour. So the City of Wolverhampton introduced a policy where they checked people's addresses before letting them use facilities like the local dump much to her ire.

These examples of tax avoidance sit alongside the news that some senior public sector employees at the BBC, NHS and elsewhere have been using other mechanisms to avoid paying personal tax by 'disguising' themselves as being self-employed. The farce is fully exposed when you discover that while pretending to be consultants and invoicing for their fees (and thus avoiding some NI tax) they still expect their supplier to still contribute handsomely to their pension.

The big story last year of this practice was of Ed Lester the CEO of the Student Loans Company. No doubt on his business cards and on the door to his office he appeared as an employee, but for tax purposes he had a secret identity as an independent contractor. This farce is nothing new - in 1999 John Birt, then head of the BBC, engaged in a similar arrangement. The Inland Revenue's response at the time was the ham-fisted IR35. Since then it has been vigorously misapplied against genuine freelancers in the private sector while seemingly making no difference to the tax affairs of public sector executives and celebrity presenters. The knee-jerk response from government has been to tamper with IR35, a tax which in opposition both the Lib Dems and Tories couldn't condemn enough.

Ironically, back in 1999 the main advocates for the tax were firms like EDS and many from the big four accountancy firms who were unhappy that small firms and freelancers were undercutting their rates and wanted them taxed out of the market. In response they were exposed by the contractors' trade association - the PCG - as also not paying their fair share of UK tax. So nothing changes - or has it?

What has changed is that the world of work has altered. The internet revolution was then in its infancy, now it is firmly entrenched in society. It is truer now more than ever that there are no jobs or even careers for life as we have firmly entered into a knowledge based economy. There are different patterns of work and more and more people are seeking to work freelance. These are the self-employed tradesman of the knowledge economy, but this self-employed work is not just quick one off jobs of fixing the washing machine and out, but is a case of engagement on contract work to - for instance - develop software and manage projects and programmes.

While celebrities and public sector executives seem to be able to circumvent the tax system while engaged with a single employer for their entire careers a freelance contract worker on a six month contract has no such luck. They are faced with tax laws which ask if they have invested in their own equipment - like a white van - or use their own tools - like spanners and hammers.

In an economy where more and more people are working as freelance and self-employed and often doing contract work in the knowledge economy we need a modern tax system that rewards risk - and working for yourself is a risk. Through IR35 it is no longer possible to pay income out as dividends, invest heavily in training or to invest profits, employee anyone else with the profits or carry profits over into a future year for investment.

Back in 1999 it was suggested that it would raise £900m per annum. Ten years later figures released showed that it directly raised less than £10m in its whole life. But instead of people working through their own companies, a whole new industry of tax avoidance has been created as individuals now work through so called 'umbrella' companies who pay their taxes for them and allow them - for a fee - to claim a few extra expenses.

At the heart of the problem is the issue of limited liability. Freelancers need limited liability status to win contract work which means that they can't use the traditional Schedule D (self-employment) model. Instead they must incorporate. When doing so they can enjoy corporate tax structures (such as issuing dividends rather than using PAYE). Such structures don't recognise whether the company is there for one person to trade alone or for 20,000. The big advantage is the avoidance of paying both employees and employers National Insurance if income is distributed as dividends rather than as salary and this can be split between family members. This all makes sense in a family firm, partly when done by a freelancer but not when done by the Chief Executive of the Student Loans Company.

The solution to this problem, therefore, if to introduce the new tax and employment model that allows for the self employed to have limited liability, the ability to grow and invest but not the ability to circumvent or avoid tax. Such reforms would send a clear message that Labour gets the 21st century and the knowledge based economy and it would be sowing the seeds for the growth and entrepreneurialism that Britain needs.

Philip Ross works for Alpheus Ltd. He is also a member of LFIG and is the author of 'Freedom to Freelance - beginning the fight against IR35'

INCREASE THE TRANSPARENCY OF INVESTORS' STEWARDSHIP ACTIVITIES by Will Pomroy

While there is much positive action being taken to improve the transparency of listed companies both at a UK and EU level, similar attention is not being given to the users of this information, the investors.

Efforts are being made to improve companies reporting of their material sustainability risks and the steps they are taking to mitigate them. This should provide investors with information to better assess the long-term prospects and value of a company and thus improve efficient allocation of risk capital in the market.

Reforms are additionally being introduced to empower shareholders with regards to their oversight of executive remuneration. This will provide them with both clearer information and the tools in order to sanction those companies who fail to adequately link pay to performance.

Finally, the recent 'CRD IV' package in Europe – infamous for its' introduction of a "bonus cap" includes new requirements for banks to report on a country-by-country basis profits made, taxes paid and subsidies received. Similar requirements are also being introduced for the extractives industry. These are positive developments.

Although we can increasingly judge how sustainable and ethical our public companies are, we can't however, make similar assessments of the asset managers investing in these companies. While there is no silver bullet, and there are many misaligned or perverse incentives in the investment chain to iron out, there are steps that can be taken to help identify those investors who are acting as engaged stewards of our investments. This would be in the interests of companies, savers and the State.

Clearly, companies which invest over the long term have a clear interest in having shareholders who take a long-term view of the company, and as stewards of its long-term interests, engage in important strategy and investment discussions.

Attempts in recent decades to convince institutional investors to act as 'stewards' have thus far fallen short – although progress is definitely being made. Many investors do take their stewardship responsibilities very seriously, others less so. With the ever more diverse and dispersed shareholder register of most companies, the voice of patient stewardship capital is increasingly being drowned out by the din of short-term market voices. It is imperative therefore to try and improve the efficiency of the market where at present stewardship investors are not being appropriately rewarded for their actions.

The idea of devising a mechanism to reward stewardship investors as opposed to those who free-ride or who mainly trade shares via the tax system or enhanced voting rights , is in principle attractive. However, devising such a mechanism which isn't hugely costly to the Treasury, doesn't lead to entrenching shareholder blocks or create different classes of shareholders is difficult - not least when considering how to reward the 'active' passive investor as opposed to the 'passive' passive investor.

Therefore, the most realistic, and in the long-term more ideal scenario, is to find ways to improve the demand for those investors who are committed to adding long-term value via active stewardship of their investee companies.

With the advent of auto-enrolment, nine million people will be saving into a pension for the first time, or will be saving more. This will mean many billions of extra savings being invested by asset managers on behalf of individuals – much of it in UK companies.

This evolving defined contribution pensions world presents an opportunity to create a truer market for stewardship. Ideally informed consumers would reward those investment houses and funds which devote significant time and resource to analysing, monitoring and engaging with companies to foster mutually beneficial long-term relationships. However, that for the time being remains but a vision.

In the short-term, as the price for the - thus far - success of auto-enrolment, the Treasury will be forking out more in pension's tax relief. It should therefore be concerned with ensuring it is getting wider value for money from this cost. It is in both the Treasury's and individual savers' interests that these investments are managed in a responsible manner, supporting long term value creation.

Given this context, I believe it is now right for the government to mandate voting disclosure by FCA authorised asset managers. It would be important to avoid prescribing the form this disclosure would take, however, it would be important to ensure that these disclosures are useful and not simply a ream of data. Importantly a summary disclosure of voting and stewardship activity for each fund should be included as a standard element of the literature provided to individuals when selecting their chosen funds in contract based defined contribution pension schemes. This would allow them to make a more informed choice about how their savings are invested. If individuals are expected to increasingly shoulder investment risk, then they should be equipped with the information to enable them to mitigate this risk where possible.

A common objection to the public disclosure of voting has been that the 'vote' is the property of the client and not the public at large; however increasingly in a defined contribution world the 'client' will be the 'public'.

There are other principled objections, and it is certainly right to say that judging managers' stewardship activities solely based on their voting activity would be superficial. However, I would argue it is imperative that managers' make disclosures in a fashion which articulates clearly how the vote relates to their broader engagement activities. Mandating this disclosure could help drive up the standards of reporting of asset managers, encouraging them, as we are increasingly expecting of companies, to integrate their non-financial stewardship activities into their financial performance reporting.

Of course other more radical options could also be considered; in carrying the idea of "rights and responsibilities" as used in welfare reform debates forward, one could consider introducing "use it or lose it" voting rights. If votes weren't cast, then a company could be empowered to issue a form of "yellow card", if they weren't used again the following year, then the voting rights could be lost.

Crucially investors should utilise their ownership rights in a responsible and enlightened manner and in the best interests of their clients – this includes considered voting of shares. Improved transparency of their voting and engagement activities would shine a light on how they utilise these rights and responsibilities and help savings be channelled towards those investors who are endeavouring to act in the best interests of their clients, the public.

Will Pomroy is a Policy Lead for the National Association of Pension Funds.

APPOINT A CFO AND STRENGTHEN THE TREASURY'S FINANCIAL MANAGEMENT ROLE

by Fatima Hassan

The road to 2015 success for the Labour party will be determined by two electoral tests. The first is whether Labour's economic policies will encourage growth in the UK economy. The second, and more crucial, is confidence in Labour's ability to manage taxpayers' money wisely.

Recent Comres polling suggests that 79% of Labour voters think politicians are too reckless with taxpayers' money. Moreover, research commissioned by the Fabian Society highlights that for every two people surveyed who supported spending rises, three supported cuts.

That is why; if we were Chancellor, I would create the senior civil service position of a Chief Financial Officer (CFO).

<u>The role of a CFO</u>

The first duty of any government is to provide security. While the traditional view may be in military or welfare terms, the sovereign debt crisis illustrates that financial security and resilience are equally as important.

The role of a CFO provides financial discipline and risk management in the business world. While the private sector is not without its faults, I believe public sector finances can benefit from some of the skills and rigour a CFO would bring. For example a CFO would assess costs, develop strategies to help address performance failures, and improve long-term financial outcomes.

No matter how Labour positions itself ahead of the next General Election, the reality is that the UK's public finances are unsustainable. The deficit and debt will take years to get to grips with. So whatever else a Labour Chancellor does, policies for growth and better financial management are essential. And a public sector CFO, with the relevant skills and experience in strategic financial oversight, would provide Labour with the policy tools to meet these challenges.

<u>Things did get better</u>

The UK is already a leader in financial management but it must now do more. In 1998, Gordon Brown announced a HM Treasury (HMT)/National Audit Office initiative called Whole of Government Accounts (WGA). The intention was to enable Parliament and the public to monitor how taxpayers' money is spent through annual financial statements – a process with its roots in the private sector.

Over a decade later, HMT delivered the UK's first WGA in 2011. What remains less clear now is how WGA is being utilised to inform spending decisions – such as the CSR, Budgets and Autumn Statements. WGA is a tool to assess future liabilities and public spending pressures such as net public service pension liability and Private Finance Initiative commitments.

But like any good tool, as WGA is, you need skilled workers to use it and interpret what it means for future economic stability. That is the skill set a public sector CFO would bring, ensuring valuable insights into policy decisions and value for money in their delivery. While a CFO in the private sector would be intimately familiar with every major spending decision of a business, it is striking to learn that none of the current top four civil servants in the UK have strategic finance as part of their brief.

If I were Chancellor, I would not only appoint a CFO for government, I would work together to transform the role of the Treasury. HMT would no longer simply dispense resource and monitor expenditure but start behaving more like a modern finance function. This would involve HMT being more responsible for overall expenditure, performance, efficiency and service delivery – managed from the centre, with departments acting as subsidiary companies. This would deliver systematic financial management across all departments, and a focus on pursuing long-term value at the lowest cost.

Currently, around 20% of HMT's organisational remit addresses financial management and expenditure. So the important questions for Labour's Chancellor and newly-appointed CFO to consider will be:

- Is the current HMT and wider civil service structure fit for purpose when confidence in UK public finances is so low?
- Should a public sector CFO report to Cabinet, to provide high-level independent guidance on what policy options are financially deliverable?
- How can financial modelling respond better to external pressures like an ageing population, welfare demands or economic downturns?

New Zealand provides a good template for these ideas in practice. Their Treasury has a public sector CFO who helps the New Zealand government better understand and manage financial pressures. The CFO develops finance strategies to deliver government priorities. The ethos which underpins this role is generating better 'value for money' out of the limited resources available to policymakers - a narrative which the Coalition has often spoken about but struggled to execute while in government.

So yes, Labour can manage taxpayers' money wisely if they ensure the financial management architecture is in place to achieve their aims. Despite the right's rhetoric that Labour had a 'poor' fiscal record in government, the truth is that between 1997 and 2007 the quality and quantity of public services improved. Where Labour failed, was in its oversight of the 'value for money' function. But it was not just Labour; successive governments have failed, not least because they have not had the right financial tools and people for the job.

The Institute for Fiscal Studies argues that if Labour, "managed to maintain the bang for each buck at the level it inherited in 1997, it would have been able to deliver the quantity and quality of public services it delivered in 2007 for £42.5 billion less. Alternatively, it could have improved the quality and quantity of public services by a further 16% for the same cost."

I believe the appointment of a public sector CFO would offer a way to achieve this productivity. Not to ape the private sector but to use best practice in the private sector to deliver better outcomes for all. A CFO as a right hand person to the Chancellor would help rebuild not only the country's fiscal credibility but also the Labour Party's.

Fatima Hassan is a New York based public policy consultant. She previously worked at the ICAEW, where she specialised in public sector financial management. In 2011, Fatima published, Sustainable Public Finances: Global Views, a collection of thought-leadership essays on improving value for money in the provision of public services. She has also held various roles at the Westminster-based think-tanks Policy Network and the Fabian Society.

A BETTER REGULATORY FRAMEWORK FOR FINANCIAL SERVICES

by Todd Foreman

I believe it is imperative that banking reforms are introduced that reduce risk to the economy and taxpayers, and that hold bankers accountable for their actions.

The Labour Party leader Ed Miliband has rightly said that New Labour was "too timid in enforcing rights and responsibilities, especially at the top, and it was too sanguine about the consequences of the rampant free markets"[1] This certainly is true with respect to the banking and financial services industries. Too little regulation and oversight led to a taxpayer bail-out of the banks. This has been used by the Tory-led coalition to justify cuts in public services, while banks like Goldman Sachs continue to look for schemes to ensure that as little as possible of their bonus pot is taxed. The next Labour Chancellor should press for banking regulation that minimises the risk that taxpayers will again be asked to pay for the mistakes of the banks, and also ensures that the financial services industry is taxed fairly and held accountable for its actions.

The biggest risk to taxpayers comes from the banks that are "too big to fail". That is, banks that are so large and interconnected with the wider economy that they have to be propped up by governments when they get into difficulty. This risk can be greatly reduced by splitting up the commercial and investment activities of banks. Commercial banking activities comprise of what are normally thought of as traditional "high street" banking and are often aimed at ordinary consumers; taking deposits, lending for home mortgages and lending money to businesses. Investment banking services are typically aimed at much more sophisticated customers, and include activities like underwriting share offerings, mergers and acquisitions and the creation of ever-more complex derivative products. Whilst many such investment banking activities are entirely legitimate, some of them are tools for casino capitalism. Splitting investment banking activities from commercial banking will greatly reduce the risk that taxpayers will need to bail out a bank because it has placed bad bets in the casino.

For those at the top, responsibility means that bankers should not expect to be bailed out by the taxpayer when they get into difficulty. When banks are no longer too big to fail without major damage to the wider economy, they should indeed be allowed to fail when they become insolvent. Ordinary depositors are protected up to £85,000 by the Financial Services Compensation Scheme, and anyone fortunate to have more than that amount to deposit can protect themselves fully by opening accounts at more than one bank.

Aside from not expecting to be bailed out when they fail, bankers should expect to be prosecuted when they break the law (just like everyone else). Historically, the UK's record in this area is poor. The problem isn't so much that there aren't laws on the books - fraud and market manipulation are already crimes; what has been missing is the criminal prosecution. However, the FSA has recently made some encouraging noises about prosecuting wrongdoers in the LIBOR manipulation scandal, and the Serious Fraud Office arrested three people in 2012 in connection with their investigation into LIBOR. Much more action is needed on this front and criminal prosecution of market manipulation should be a high priority.

Fairness and accountability means that those at the top should expect to pay their fair share in tax. The Tory-led coalition has made exactly the wrong move by cutting income tax for those few taxpayers earning over £150,000 per year. A recent attempt by Goldman Sachs to delay bonus payments until the new tax year[2] to take advantage of this Tory tax cut is highly cynical and frankly disgusting. The Goldman Sachs scheme also highlights the problem of the bonus culture. Bankers' bonuses are typically tied to their performance over just one year. It is all too easy for bankers to work for the short-term, trouser a large bonus and move on to a new bank with little regard for the long-term health of their employer (never mind the wider economy). Progressives should push for solutions to this problem, such as tax disincentives for large bonus payments, longer service requirements for bonuses, and clawing back or prohibiting bonuses when banks are bailed out by the taxpayer.

The next Labour Chancellor should introduce tax reform to ensure that the financial services industry is taxed fairly and contributing to the funding of public services. Don't look to the Tories to take any special action on this issue. Tory Chancellor George Osborne floated the idea of a "bank tax", which would have prohibited banks from offsetting losses in the financial crisis against later earnings, and promptly shelved the idea after coming under pressure from the City. Another proposal is a financial transactions tax, a small levy on transactions such as trades in currencies, bonds, shares and derivatives. Not only will such a tax raise money, it will discourage casino-type trading. 11 EU countries (including France, Germany, Italy and Spain) are moving forward with plans for a financial transactions tax, but once again the Tory-led government has blocked the tax for the UK.

Many of the measures described above have a much greater chance of success if we can convince other major market participants, such as our EU partners and the United States, to implement similar measures. The goal for progressives and the next Labour Chancellor should not be to shut down the financial services industry or drive it from the UK. It should be to create the regulatory framework for a financial services industry that pays its fair share of taxes, is held accountable for its actions when things go wrong and poses as small a risk as possible to taxpayers and the wider economy.

Councillor Todd Foreman is a solicitor, a councillor in the Royal Borough of Kensington and Chelsea and was recently selected PPC for North East Somerset.

1. http://labourlist.org/2013/01/ed-milibands-fabian-conference-speech/

2. http://www.ft.com/cms/s/0/5f44bcf0-5da9-11e2-ba99-00144feab49a.html#axzz2ad8F31xr

CREATING A MIXED ECONOMY, REVITALISING MUNICIPAL GOVERNMENT AND ESTABLISHING A PRICES COMMISSION by Alan MacDougall

Mr Speaker:

I set out in this statement today new Government initiatives that build on the trust that the British electorate placed in Labour at the last election.

As part of the Government's new strategic vision for UK economic development our approach is to create a new mixed economy in which we harness the best from both private and public sectors. This reflects our central concern that our current crisis resulted from a market economy taken to extremes.

The free market excesses that contributed to the global financial crisis are not our only challenge. Recent UK economic development has been either black or white - either private sector business-led, or state controlled, with government playing the lead role. We believe that the real lesson for this Government coming out of the crisis is to create a different vision, where the UK becomes an entrepreneurial state, taking risks but only in the public interest.

In our view, the current crisis reflects the failure on many levels of the market economy taken to extremes. What the UK desperately needs is a more balanced approach to solving economic and social problems through a return to a 'mixed economy'. The context for this approach is that most all the basic human requirements for civilised life in the UK are now owned or controlled by private corporations. This is in our view fundamentally unbalanced. The policies I announce today will challenge this context by beginning a process of change that restores a balanced order to social and economic life where the public interest starts to grow in strength throughout our society.

First, I want to improve the living standards amongst the majority of our population. This will be done by a combination of economic growth in the regions and revitalising the role of municipal government. Municipal government will be freed from the straightjacket of Treasury fiscal and monetary constraints to pursue sustainable energy, community-based anti-poverty plans and local employment schemes. In addition, regional infrastructure will be facilitated through new regional infrastructure councils involving public interests and private sector expertise. This will be coordinated between regions by elected regional planning parliaments.

Second, municipal government will be permitted through legislation to compete with the private sector for the provision of commerciaLservices and initiatives that are regarded as appropriate in their localities. This could be estate agency services, legal services, housing management and community environmental and energy efficiency work.

Third, we refuse see our communities further weakened and impoverished through the unrestricted pricing mechanisms of the market. At a time where we have zero and negative growth in incomes across so much of public and private sector employment, we intend to bear down on those key prices fundamental to a civilised quality of life. This will include household energy needs, mainline utilities and fuel. In addition we will institute a large scale monitoring of food and commodity price markets in the UK. This will be done through the establishment of a credible, authoritative and expert Prices Commission to review the origins of firm and sector pricing mechanisms and policies, with a view to protecting existing living standards. At a time of austerity, when millions of peoples' incomes are in effect being suppressed, we need to create a more level playing field by managing prices.

Fourth, we cannot sit idly by and watch the next financial bubble in our housing market occur without exercising a new direction for the housing market in both private and public sectors. In a housing market subject to the excesses and profiteering of unscrupulous landlords and speculators, the real housing needs of our populations are simply being ignored. The Government has a profound responsibility to intervene, plan and coordinate a huge job of housing re-balancing as part of our approach to growth and recovery. Again, regional initiatives and municipal government have crucial roles to play as well as the private sector and the social housing communities and associations. To create diverse housing opportunities appropriate to differing community needs, we have to plan: otherwise an unrestricted housing market will continue to create damage to all our communities.

And fifth, this Government is committed to building a just system of income distribution across both public and private sectors. Our approach will review the policy options and consequences for alternative visions of equal and fair pay in the workplace in both private and public sectors. We will build a new consensus over value for money, relative values across occupations and ranking for comparable work, matched with the ability to pay, determined through open dialogue and decision-making, not just bargaining power. This process would also establish the limits of a free market in income inequality. We do not believe that continuing income inequality provides a just and fair foundation for the UK's future economic needs. Again we seek to bring the UK economy and society into balance, a balance consciously sought, debated and decided in the mixed economy we want for the future.

Mr Speaker, I conclude this statement about our plans for reinvigorating a fair and economically efficient society by announcing a bold start to the process: from midnight tonight the price of unleaded petrol and diesel at the pump will be frozen at £1.25 per litre for two years until April 2017.

I commend this statement to the House.

Alan MacDougall is Founder and Managing Director at PIRC Limited.

3 - SMEs and the Regions

FROM DEBT TO EQUITY

by Allen Simpson

I feel a degree of sympathy for the mess the Chancellor inherited in 2010. Even if he overplayed the fiscal impact of the last government, the costs of the fiscal bailout give him precious little room for manoeuvre. He may see the matter differently, but the most significant problem he faces is being tied to a set of policy levers which have not only failed each of his predecessors but have indeed created a problem which he really has no choice but to now confront.

The West has seen a number of financial crises in the last few years of escalating seriousness as the inherent contradictions in our growth model become deeper and more fundamental. Our overreliance on monetary stimulus and imported credit to fund growth has grown in parallel with the sheer impact of each resulting crisis.

In truth, this is the unlearned lesson of recent economic history. Crises repeat themselves, partly because these fault lines remain the same, but also because we so stubbornly refuse to alter our solutions.

The US response to recessionary pressures in the early 1990's was a decade of activist monetary policy to force lending – and therefore growth – into the economy. 10 years later, that excess credit contributed to an asset bubble which burst with the now traditional bang. Remarkably, no lessons were learned from this embarrassment and by the mid 2000's monetary policy was nearing zero here and in the States, lubricated by massive imported credit from the growing economies and a major loosening of bank risk management requirements.

The result was that banks doubled –in some cases tripled – their financial exposures as debt funded a housing bubble. Well done all.

We are of course doing it again. Every sinew of the Government has been strained to make the same mistakes at an even greater intensity. Interest rates have never been so low for so long, and there cannot possibly have ever been such a wide range of schemes to 'get banks lending', even to companies who are simply too risky for any responsible lender to support. We even have an explicit government subsidy aimed at restarting the housing bubble; such a huge success in the past.

There should be no doubt that the result of this escalation of the same failed approach will be ruinous. In fact, we are now at a fundamental crossroads where the Government has no choice but to redress the underlying structure of the economy and go for stability rather than short term growth. In the years leading up to the last crisis, China and the Middle East exported $5.3 trillion in credit to the West as the trade balance made them hugely wealthy. But as the New Economies mature, this credit will fade away like sand in the wind.

I therefore offer this advice to the Chancellor; forget about the length of this economic cycle and stop fixating on the deficit as a goal in itself. You have bigger fish to fry.

Set your sights higher and begin a historic shift away from this subsidised reliance on debt towards self-sustaining alternatives like equity capital unlocked from our corporate balance sheets, pension funds and retail savers. Use the vast unused economic reserves of this country to drive growth, rather than relying on subsidised and largely imported credit.

The change will take cross party consensus and deep structural change to our accounting rules, fiscal environment and national propensity for buying things on credit. You can't do it all before you leave the Treasury, but there are four things you can do to get the ball rolling.

- First, you were brave to cut stamp duty on growth market shares in the Budget. Extend that bravery to a cut on all share purchases. You would make long term equity capital as much as 15% cheaper for UK firms, materially improving their growth potential and beginning the slow process of addressing our overreliance on credit. The added attraction of this as a policy is that over a five year period, the enhanced economic growth would more than cover the short term loss of the tax receipts.

- Second, get people investing by creating savings products which give better tax treatment for funds which invest patient capital into growth companies in a risk managed way. Since this money is currently earning the Exchequer precious little return sitting in cash accounts, the short term fiscal impact would be minimal.

- Third, abandon the partial and imperfect proposal for a British Investment Bank and create an independent, professionally managed investment house able to invest on a commercial equity capital basis in high potential small businesses. If you are feeling bullish you could even take a lesson from the Californian public sector pension fund CalPERS and use public sector pension funds to invest, driving growth and pension savings at the same time.

- Fourth, give capital gains tax breaks to encourage large businesses to invest in high growth SMEs in their sector through minority equity stakes. The funding could be hypothecated for a specific purpose, for instance a particular innovation or product development.

These proposals are not about driving growth today, nor are they about addressing the deficit. They are to deliver a self-sufficient economy able to grow in the long term. In effect, we have two choices as an economy: we can use the tax code, monetary policy and direct government subsidies to try and keep the debt bubble on life support; or we can accept a slower return to growth but redraw our economy to be long term and self-sustaining.

Allen Simpson is Vice President for Public Policy, Barclays.

A MORE CONSUMER-FRIENDLY MARKET

by Eleanor Blagbrough

SMEs, typically defined as businesses with fewer than 250 staff, represent the vast majority of the UK economy. A dynamic SME community is important for economic development, with innovative, high-growth SMEs creating jobs, promoting competition and being the breeding ground for the large corporations of tomorrow.

With insipid growth in the UK economy over the last few years (a sorry indictment of the current Government's failing economic policies), many of the more ambitious SMEs have focused attention on export growth. Those with differentiated offerings, such as specialist manufacturers, and software/technology and life sciences businesses, where the UK has a strong pedigree, should be well-placed to export.

However, experience would suggest that many SME entrepreneurs are held back from embracing the export route by wariness over the perceived risks involved, for example the cost and complexity of developing an international operation, and a sense that they lack the required know-how and support. Whilst the present Government has made great play of promoting UK exporters – think of Cameron's trade missions to India and the Government White Paper in 2011 – the sad truth is that it has had limited practical impact for many SMEs. This is a real opportunity missed: for GDP growth; for an improvement in the UK's trade deficit; and for the development of a more balanced economy.

There are a number of practical and relatively low-cost steps that I suggest the Chancellor could take to redress this balance. First, the Government could more proactively work to publicise the support that is already available, for example through genuine outreach to the business and investor communities. As the House of Lords Select Committee on SME businesses recently reported, awareness of useful government schemes is woefully low and thus uptake has been limited: UK Export Finance, for instance, had helped only 21 SMEs between March 2011 and August 2012.

The Chancellor could also encourage UKTI and the FCO to work even more closely, to ensure that trade issues are given a higher priority at the UK's overseas embassies. For SMEs, that may be exporting for the first time and often lack the scale to establish foreign operations, embassy support (for example, to find local agents and to advise on local business practice) can be tremendously helpful. Unfortunately, there is a sense that trade is a poor relation to diplomacy, particularly when it comes to smaller companies, and SMEs may struggle to get traction. The reduction in embassy staff numbers in recent years seems to have exacerbated this issue, another example of the current Government's short-termist austerity measures.

The financing of export growth, particularly for smaller SMEs, is a challenge that is already well-publicised. In the absence of more fundamental reform of the banking system, I believe there is still an opportunity for the Government to act. First, it should require the banks, as a condition of taxpayer support, to implement timelier decision-making and more transparent decision criteria and risk assessment processes when it comes to SME lending. This would help reduce the uncertainty that is so detrimental to business confidence and decision-making. There would also be merit to the Government more widely publicising alternative funding sources that, whilst may not be appropriate for every business, help to provide much-needed competition and innovation in the banking sector.

Finally, the Government must focus on showing that it is truly open to foreign trade. The on-going questioning of EU membership, the lack of a clear plan for solving the shortage of airport capacity in the South-East, and the difficulty for some foreign business people in receiving UK business travel visas may play well to the Tory backbenchers but the uncertainty it creates does not help British businesses to succeed on the international stage.

Clearly not every SME needs export support – many are already very successful, and for some it will never be relevant - and nor should the Government take on responsibilities that are rightfully those of the entrepreneur. However, it is surely wrong that in a time when we are trying to rebuild and to rebalance our economy that more SMEs are not able to achieve their full export potential and as Chancellor this would be an immediate area of focus to achieve some relatively near-term impact.

Eleanor Blagbrough is an investor at ECI Partners, a UK private equity fund investing in small and medium-sized growth UK businesses.

A WINNING ONE NATION

by Will Martindale

Global business needs a British office. But for how long?

We're the English speaking corner of Europe, founders of the Commonwealth and we straddle the US and Asia trading day. Britain is well placed for global trade.

But, with new emerging economies growing and levels of education advancing, if the Britain of tomorrow wants a good life, it will have to earn it. Our economy is too reliant on banking. We face a skills shortage at the same time as school budget cuts and we're doing too little to build a future that is not dependent on fossil fuels. The minimum wage is too low and London's real estate is the most expensive in Europe.

Here are my ideas to turn One Nation into a Winning Nation.

Community regeneration:

- Set up public-private partnerships to fund high-speed free WiFi in Britain's most deprived communities, most of which are high-density living.
- Pilot new rounds of quantitative easing to fund infrastructure projects in our poorest communities: new railways, roads and council housing, being built in stages to monitor inflation.
- Establish new council tax bands and regional banding to pay for pre-school education and after-school clubs for working parents. Universal childcare is the aspiration.
- Lease out school land in the holidays, evenings and weekends to community groups and local businesses. Increase the education budget for smaller class sizes, more school trips and computer facilities. In the course of the parliament provide a laptop for every secondary school child.
- Make the minimum wage the living wage; promote local currencies like the Brixton Pound; source crowd-funding for community start-ups and encourage peer-to-peer lending.

As the economy recovers, I would simplify the tax code to reduce loopholes for the wealthy and multinationals and bring clarity and fairness to tax collection. Once it's recovered further, I would work out how much it costs to renationalise energy, water and rail.

Housing:

- Establish minimum quotas of affordable housing for new developments in cities and the south-east.
- Require council housing to be the first call on the sale of public land. I would also introduce US-style superintendents to keep quality up and maintenance bills down.

The financial crisis:

- Subsidise start-up costs for new banks through a financial transaction tax on derivatives. Over time, I will force the Britain's largest banks to down-size to a maximum of 80% of GDP.
- Restructure tax on dividends to incentivise long-term investment and shareholder participation.
- Invest in a single-growth fund, targeting jobs in small, medium and regional enterprise, administered by a British Investment Bank and paid for through the privatisation of RBS and Lloyds.

Environment:

- Require companies to report their carbon emissions, and fund managers to introduce targets to reduce carbon exposure.
- Get homes and businesses to collect rainwater, compost food waste, insulate and systematically harness solar and wind energy. It should pay to package light. I would introduce charges for all plastic bags, as Ireland has done resulting in a massive reduction in plastic bag litter.
- Finally, we need a new mutualism; car-pooling, job-sharing and shared gardens. The Treasury – through council grants – should promote this.

Will Martindale is Policy Adviser for the Financial Sector for Oxfam.

A PRIVATE SECTOR-LED RECOVERY IN THE NORTH OF ENGLAND by Robert Allen

The gap between the North and the rest of the UK is widening. To take just one measure, unemployment in the North was just under 5% in early 2005, in line with the UK average. Today it is 9.1%, considerably higher than the UK average of 7.8%. Reducing the prosperity gap would be good not just for the North but for the UK as a whole. As the think tank, IPPR North, has found, halving the output gap between the north and the national average would increase national economic output by £41 billion.

I agree with the present government that the only future for our economy is through private sector-led growth. However, the private sector has not yet been persuaded to step in to fill the gap left by the public sector. What private sector growth there has been does not extend far beyond the M25. According to the government's English Business Survey[1], business activity in the North East fell by 11% between November 2012 and February 2013. Although it has subsequently begun to recover, firms in the North East are the least positive about future economic performance of any region.[2] There is therefore a strong case for targeted measures to support the private sector recovery in the north. I have highlighted three areas where I would take action if I were Chancellor: investment allowances; skills; and support for the construction sector and housing. I have also made a specific proposal in each area that could be acted upon today.

<u>Trade further cuts in corporation tax for increased investment allowances:</u>

The present government's decision to reduce corporation tax from 28% in May 2010 to 23% today, and to 20% by May 2015, sends a positive signal that the UK is open for business. However, this has done little to encourage businesses already here to invest. As I have stated already, this problem is worse in the North. The current Chancellor has made some tweaks to the tax system to encourage business investment, including the temporary increase in the investment allowance for plant and machinery in the 2012 autumn statement. However, the government should now go much further and introduce 100% capital allowances for the next two years. (A cheaper alternative would be to limit this to new infrastructure investment, which the CBI estimates would cost £200m.) To pay for this, I would rethink further reductions in corporation tax. While this would mean not reaching the headline-grabbing 20% corporation tax rate come election time, business has already had a 5% reduction and has simply banked it. The UK will get far more bang for our collective buck from bigger investment allowances.

<u>Encourage Northern graduates to stay in the North</u>

Another thing holding back businesses in the North is skills shortages. Like other parts of the UK, the North has complex skills challenges on both the demand- and supply-side. One challenge which receives less attention is the graduate brain drain. The North East and Yorkshire and the Humber both lost a quarter of their graduates in 2006/7. Yet every single region in the North cites professionals or associate professionals as one of the top three occupations facing skills shortages, suggesting Northern businesses are suffering from the shortage of graduates.

There are complex reasons why so many graduates of Northern universities choose not to remain in the North, starting with the large number of graduate careers only available in London. (Full disclosure: I am a graduate of the University of Hull living in London.) But the government could demonstrate that it wants to encourage graduate retention by offering a modest financial incentive to graduates of Northern universities who accept a job locally. I suggest a 10% reduction in tuition fees or a repayment holiday, on the condition that the individual commits to a job locally for at least 12 months.

<u>Stimulate house building and encourage demand</u>

While the North does not suffer the same extreme cost pressures as the South East, it does have a shortage of good quality, affordable housing to buy and rent. There is a particular shortage of social housing, evidenced by the increasing trend of housing benefit tenants being housed in private rented accommodation. Meanwhile a lack of mortgage finance has depressed the home ownership market. There is therefore a strong case for targeted measures to encourage demand in the home ownership market and stimulate house building in both the private and social sectors. This would also provide a much-needed boost to the construction sector.

While I welcome the attention given to housing in the 2013 Budget, most commentators believe the Help to Buy scheme will push house prices up even higher. This would also widen further the gap between the south east and the rest of the UK. While the government is unlikely to drop the scheme altogether, there are far simpler and more effective things it can do than the messy business of guaranteeing mortgages. The last government introduced several stamp duty holidays; I would suggest abolishing stamp duty altogether for properties under £250,000 and/or for first-time buyers, or at least announce a long holiday – say until the next general election. I believe the cost to the exchequer would be no greater than that of the Help to Buy scheme.

A final thought. The North will never reach its full potential while London and the South East remain the centre of political, financial and cultural life in the UK. The BBC has made a start with Media City in Salford; it's time for the government to lead by example. Lord Adonis' proposal to move the House of Lords is a good start. This would create another political centre in the UK and would, I imagine, have the added benefit of reducing the size of the second chamber. Eric Pickles already plans to move his department. Why not go one step further and move it out of London? It is the department for local government, after all.

Robert Allen is Associate Director, Global Public Policy at Ernst & Young.

TARGETED QUANTITATIVE EASING AND A GEOGRAPHICALLY-WIDER FINANCIAL SERVICES INDUSTRY

by Faz Hakim and Eddie Heaton

The City of London is the envy of the world and as global markets and trading volumes continue to grow so will its influence and its value to the British Exchequer, to which it already contributes massively.

The City should not be penalised for its success but the UK financial services industry should aim to be less 'London- centric' and be encouraged to spread its activities to cities such as Edinburgh and Leeds, where there is already significant financial services expertise. The excellent investment banking courses at Universities such as Manchester and Nottingham could also be used to encourage the financial services industry to expand geographically. Global trading can be carried out from other parts of the UK as well as the South East and incentives should be introduced to make this a reality. The Financial Transactions Tax (FTT) is already a reality in a number of EU countries. It is conceivable that we will be forced to bring in such a law here and if that is the case then revenues generated should be reinvested to help to relocate globally active financial institutions into the British provinces.

The financial services industry has recovered well and will continue to do so. The rest of the economy, however, is stagnant with little sustained growth. This unprecedentedly dangerous situation has been made worse by the dogma driven austerity and spending cuts of the Tory-led coalition that every sensible economist and financial commentator has warned against. With two more years of the same ideologically driven and economically illiterate policies in prospect it seems likely that the next Labour chancellor will be faced with a number of extreme political and economic dilemmas. She or he will be unable, for political reasons, to reverse the coalition spending cuts but the need to create sustained growth will have reached emergency proportions and so it will be an absolute necessity that she or he act both radically and decisively to divert funds to those areas of the British economy that will need them most. Without investment there can be no growth and a continued lack of growth would be catastrophic.

This Tory-led government's 'Funding for Lending' scheme is manifestly just not working. The amount in the scheme is supposedly £80 billion. The amount taken up by banks the end of 2012 was £13.8 billion and the amount allocated in the Government's new 'Business Bank' was just, shockingly, £300 million.

Despite the scheme being in existence since August 2012, there has been a £2.4 billion dip in lending in the last quarter of 2012 and net lending to companies dropped by £4.8 billion in the 3 months to February 2013. Despite a small rise in May- June 2013, lending to small and medium-sized businesses (SMEs) continued to decline, dropping 3.3%. Lending to larger companies continued to fall on both a monthly and an annual basis. In total, UK businesses are borrowing 3.7% less than a year ago, and 1.3% less than a month ago. This indicates that much of the £13.8 billion has not yet been recycled into the economy. The total drop in lending since the start of the financial crisis in 2008 is £57 billion. The current base rate is 0.5% but a typical interest rate on a business's bank overdraft is 9%.

The City of London is the financial centre of the world and not of the UK. Therefore, when the Bank of England prints money and puts it into the financial system, supposedly in an attempt to kick start our stalled economy, it is the world's financial system that benefits and not just the UK's. We propose a new round of quantitative easing but this time with the new money to be earmarked exclusively for British businesses. The UK's quantitative easing bill is currently £375 billion and there are calls from inside the Bank of England to increase this further. We would go along with that with the proviso that this money be used to kick start the economy and create jobs, not to bolster the banking system. We would argue that a large proportion of any future quantitative easing should go directly into a scheme to increase lending. This will create more jobs and more jobs will lead to lower welfare bills and higher spending which will cause the economy to grow.

As we write, the Government has announced an extension of the 'Funding For Lending' scheme and new incentives for banks to lend to businesses. This is to be applauded as an indication that the Government and Bank of England finally are beginning to understand the nature of the private sector. However, we would argue that there is still a fundamental flaw in asking the banks to administer the scheme. We would also argue that the anticipated next round of quantitative easing in the second half of 2013 needs to go directly to businesses rather than onto the balance sheets of the banks, particularly those commercial banks that are also heavily involved in proprietary trading.

The criteria used to allocate funds to businesses should be clear and transparent and based on sound business practice. Businesses will need to show they have at least 3 years' worth of accounts, are steadily increasing revenues and have made a profit in their most recent year of trading. They will need to have clear business plans and show how the money will be spent and expansion achieved.

The base rate has remained at 0.5% for a number of years now, but when banks actually do condescend to lend or offer overdrafts to business their interest rates can be anywhere between 9% and 12%! This usurious behaviour is justified by the fact that banks are being forced to raise their capital levels in order to avoid future bail-outs but these excessively high interest rates can make loans unaffordable, especially for small and medium sized enterprises. If the over-riding reason for these loans is to help businesses to expand, then the interest rates they offer should be much lower, much closer to the base rate. The banks would not agree to this so for any 'funding for lending' scheme to work it will have to be Government/Bank of England administered and regulated. The cash could be distributed by those banks that are now owned by the British taxpayer who surely have a role to play in the clearing up of the awful mess that they, in part, were responsible for creating. Although no modern, market minded, centre left political party or government should ever countenance the nationalisation of a large financial institution, the fact of the matter is that these banks are now, for good or ill, in government ownership and under government control. In this time of national emergency they should be utilised for the common good.

Faz Hakim is the COO and Eddie Heaton is the Managing Editor of International Securities Services Magazine.

LOOSER CAPITAL AND LOOSER BORDERS

by Tom Sleigh

The British economy needs to become more enterprise focused, where the conditions exist for the ready creation of decent, well-paid jobs. The dignity of work must be available for all.

1. Make it easy for business to raise start up finance.

The Enterprise Investment Scheme (EIS) should be extended. The EIS allows the formation of small businesses using equity risk capital from wealthy investors, subsidised by the tax system, but allocated by the profit motive. These companies, if successful, will create jobs, tax receipts, and grow the economy. It has been around since 1994 but recent changes to legislation mean many more companies than before qualify for the EIS. The scheme should have the maximum allowable amount and the tax benefits increased for both companies and individuals. The government should match the investment of such investors – putting public money after private money allocated based on the profit motive. Let's create a new swathe of angel investors.

2. Increase consumer spending through re-allocated Corporation tax reductions.

Cutting corporation tax, and using some of this to pay those at the bottom more. Corporation taxation should be cut perhaps by 250 basis points, with 75% of the savings companies make being used to pay staff at lower incomes more. It could be used in conjunction with a requirement for paying the living wage. These people are the most likely to return the additional money to the economy through spending, especially those already living at marginal income rates – and so contribute to the economy. This is efficient re-distribution, without money having to flow into and out of Government, with all the inefficiencies that this brings.

3. Build the infrastructure we need, re allocating some deficit spending and quantitative easing monies.

Invest in infrastructure to support business growth and create jobs. These will be large capital projects, focused on improving the infrastructure of the UK. Think of a new London airport, or an additional runway at Heathrow, the building out of the mobile network (which still has terrible coverage even close to London) and super-fast broadband for everyone and every business. Quantitative easing of bricks and mortar and jobs.

4. Make it easy for people and companies to do business where it needs doing.

Simplifying the immigration process for businesses. The complex, unclear and poorly administered immigration system in the UK is stifling business. A myriad of problems exist for businesses looking to hire skilled people from abroad or transfer key workers for experiences elsewhere. Persuade the Home Office to change the visa rules to make it easier for business visitors and tourists to enter the UK for short periods (eg. simplifying the current 16-page English only form for Chinese visitor visa applicants). Highly qualified individuals find their ability to move with work is restricted, creating a labour market in stasis not one that is flexible.

These should all be self-funding in the long-run due to the growth in the economy they would drive. If, in the short term, funding was required, it could be paid for it by abolishing the dysfunctional BIS, to be replaced by a more agile department relevant to today's economy. Sorry Vince.

Tom Sleigh is Chief of Staff to the MD of Retail Products, Lloyds Banking Group. Tom is also Common Councilman for the Ward of Bishopsgate, City of London Corporation.

24 HOUR CHANCELLOR by Emily Benn

The recent signs of tentative growth returning to the UK are a welcome relief from three years of disappointment after disappointment. Recent forward looking economic indicators may be more positive and give cause for cautious optimism - but this does not guarantee a period of substantive economic growth, particularly after the past three years of wasted opportunity. This is a critical time for the UK economy and we cannot afford to be complacent.

Let us not forget the enormity of the challenges that we face as a country. We still have a million young people unemployed, productivity below the level of 2008, woeful levels of business investment and a government deficit that hasn't fallen significantly for two years. As the recent OBR report stated, 'the pace of recovery is constrained by slow growth in productivity and real incomes, continued problems in the financial system, the fiscal consolidation and the outlook for the global economy'. I believe that within those problems lie the solutions. Public debt remains unacceptably high – but an insistence on austerity pure and simple is not the solution. In my first 24 hours as Chancellor I would take some key strategic decisions that would secure a fledgling recovery, and set the economy on course for long term success – focusing on industrial policy, employment, infrastructure, and housing.

<u>Midnight - 9am: Industrial Policy</u>

The UK needs an industrial policy, which plays to our strengths. Yes, we need to maintain the UK as a key world banking hub – but we need real and sustained investment in our world beating research and development, high end manufacturing, new technology and knowledge and creative industries, and not just in the South East.

We need to make it more attractive for large companies to unleash the potential of their huge cash stockpiles. To that end I would increase tax relief for research and development, where companies have committed to invest in STEM, green and digital sectors, and with greater relief for those investing outside the South East. I would also increase capital allowances to incentivise companies to invest in new plant, machinery, and infrastructure.

For SMEs across the country, various Quantitative Easing programmes in different guises have had no substantial effect on their ability to borrow. Rather, the excess liquidity, unused for real investment, is merely propping up an equity market, the performance of which bears little relation to the real state of the UK economy. To increase the supply of credit to the real economy, I would take immediate steps to establish a British Venture Capital Fund. This would be along the lines of the British Business Bank proposed by the British Chamber of Commerce in September 2012. I would double the government enterprise loan guarantee schemes to help those SMEs who lack sufficient track record to access traditional sources of finance.

With incentives and support, however, must come rigorous enforcement of the rules. I would instruct HM Revenue and Customs to aggressively pursue tax avoidance schemes, and reduce the scope of legal avoidance schemes.

As the Public Accounts Committee proposed, I would introduce a code of conduct for tax advisers, setting out what it and HMRC consider acceptable in terms of tax planning. Compliance with this code should determine whether or not these firms can access both government and wider public sector work. Greater transparency over companies' tax affairs would increase the pressure on multinationals to pay a fair share of tax in the countries where they operate.

We must stringently enforce the Minimum Wage, rooting out offenders who pay beneath the proper rate, and ensuring their convictions.

9-12am: Education and Skills Training

Business investment, however, is only one piece of the puzzle; we need a workforce able to fill the jobs of the future.

We have to invest in vocational training to facilitate the transition between education and employment, as the shortage of appropriate skills is the clearest barrier to employment. Vocational education needs to be valued equally with academic education and invested in accordingly. I would create new ‘enterprise labs’ to connect businesses, further-education colleges and schools with start-up companies, where these vocational skills would be matched to the employers in the area, targeted to regional demands.

Youth unemployment is a spectre that is haunting Europe. We need a jobs guarantee for the long-term unemployed and employers’ National Insurance relief for those who employ long-term or young unemployed workers for a minimum of a year.

12-4pm: Infrastructure

Britain’s crumbling road and rail infrastructure is hardly able to support the transformation of employment and industrial policy outlined above; it has to keep up with the pace of change.

I would rollout a programme of infrastructure investment financed by long-maturity Inflation-linked bonds, building on the proposals laid out in the 2012 National Infrastructure Plan. Additionally, rather than wait two years as the government proposes, I would go straight for a £3 billion boost to the economy through much needed infrastructure projects, including securing our future energy needs, rail and transport modernisation, new airport capacity, and a roll out of broadband to every rural community along with free WiFi provision in the areas with the highest social deprivation.

Much of this investment will require much better co-ordination between government departments. Silos are inefficient, ineffective and costly, and as the Public Accounts Committee pointed out, we need to ensure that the government’s budgetary system does not penalise departments which are bidding to increase budgets in order to lower overall government costs; and to create incentives for departments to pursue novel proposals which cross departmental boundaries.

4pm - 9pm: Housing

Sometime late afternoon, I would turn my attention to the housing crisis. No peacetime Government since the 1920s has presided over fewer housing completions and the situation is getting worse. Housing starts fell by 11 per cent last year to below 100,000, while house prices, particularly in London and the South East, spiralled ever upwards and the state of the social housing sector is downright depressing. I would institute:

- A real new-build housing programme, rolled out across the country financed by issuing new 30 year Gilts; low interest rates give us this not to be missed opportunity. The only way we are going to solve the housing crisis is by building affordable homes that people actually want to live in.

- A reduction in VAT on home repairs, maintenance and improvements to improve the existing housing stock

- A reform of planning laws to expedite approval of social housing development, and affordable housing, on brownfield sites.

- A new capital gains tax on any gain over £1m on first homes, at a rate of 20% (adjusted for inflation). As this tax is only levied at point of sale, unlike the undesirable mansion tax proposal, it is not based on income. While I do not want to penalise unfairly those who have invested and made a gain on their house, we have to recognise that rampant house price inflation, particularly in the South East, has made it unaffordable for hard-working people to dream of buying their own home. I would plough all receipts into building new housing with a focus on social housing.

- A delay to the Help-to-Buy scheme until the house building programme has borne fruit. Unless the delivery of new supply is complete, far from helping people buy their own homes the guarantee scheme is going to contribute further to the ever-growing house price bubble which is crowding out people, and going to burst, with the consequences we know.

- The number of empty homes in London is a scandal that is forcing those in need out. This is a dormant, non-productive asset; I would place a levy as a percentage of the value of empty properties to dis-incentivise this anti-social practice.

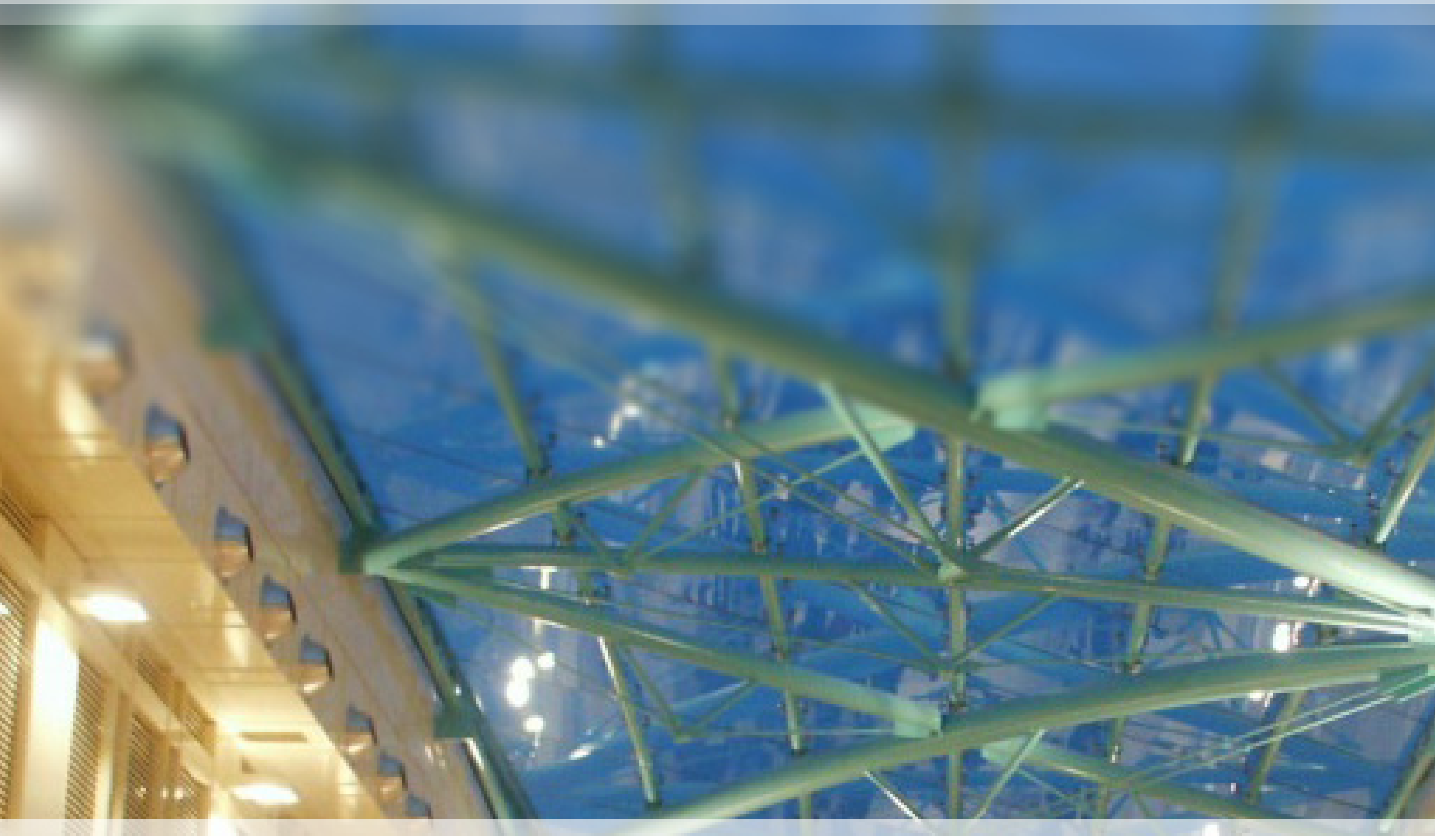
- The rise in housing benefit is huge drain on our national resources that we simply cannot afford. However this does not mean penalising current recipients. I would limit tax relief on pension contributions to £26,000 a year (the average wage in the UK) – and use the money to abolish the obscene and punitive bedroom tax.

<u>The Evening: Zero-based Budget</u>

Despite making progress on the above issues, as the end of my day draws near overshadowing my 24 hours would be the knowledge that the demographic challenges facing the UK is going to put huge pressure on the government finances in decades to come. No amount of borrowing can fix this. We need a fundamental re-assessment, from the ground up, of where the state spends money, and the purpose it serves. We cannot carry on salami slicing from departmental budgets ad infinitum; at some point the services provided will simply collapse. We need a new 21st century definition of what the state needs to provide, what it needs to commission, and what it needs to make the responsibilities of citizens and their communities. The State cannot do everything; it should enable, partner and support individuals, communities and businesses to flourish.

So my final act would be to start a real, bold national conversation with business, the trade unions, the voluntary sector, and the public to build towards a consensus about what a 21st century state could and should do. In the long term, that conversation might just be the most valuable outcome of my 24 hours at No 11.

Emily Benn works on the Multi Asset Sales Team at UBS Investment Bank. She was the Labour parliamentary candidate for East Worthing and Shoreham in 2010, and she is standing in West Thornton in the Croydon council election in May next year



4 - Consumers and Savers

A MORE CONSUMER-FRIENDLY MARKET

by James Shafe

There is little doubt that the crisis in living standards will be a central issue at the next election. There are two aspects to this crisis: inputs, i.e. the money that comes into household budgets; and outputs, or spending power, i.e. how much money goes out to meet consumer needs.

The inputs for household income are not naturally suited to everyday language. They are determined by forces in the macro economy, such as inflation and demand for labour. We are all frustrated by the Chancellor's crude references to "maxing out the nation's credit card" because, despite their everyday appeal, these terms totally mislead the public. Labour has done well to articulate its response to this economic challenge by advocating a lower 10p starting rate of tax and action to protect tax credits for working families.

When it comes to outputs, however, voter's concerns are more prosaic. In a downturn, people are asking themselves "how can I make my money go further?" Recent research by the Futures Company suggests that consumers no longer hold a straightforward "recession mentality". Instead, they now have few illusions about economic prospects and are determined to be vigilant, resourceful and responsible with their money.

This means taking difficult budgeting decisions. These are the concerns that people intuitively don't think the Tories understand. As Nadine Dorries told the FT in 2011, it feels to some people like "the country is being run by…[people] who don't know what it's like to go to the supermarket and have to put things back on the shelves". Polling shows that this perception cuts through from Westminster to the real world. Last year, YouGov found that 82% of people believed the Tories were out of touch.

Labour can show that it understands these concerns by speaking the everyday language of value for money, and backing this up with action to help consumers. To get the best value for money, consumers need the tools and protection needed to do the job. This would also help us to recognise the proportion of inflationary pressure in the economy which comes from producers' response to a lack of effective competition. Where consumers lack the resources to interrogate the products they can choose between, markets become less efficient. Labour has to break down the obstacles that stop them getting the information they need to effectively compare products against their own needs.

One way to do this would be to promote the growth of what Cass Sunstein has called "choice engines". These vehicles allow consumers to sort and search data regarding key products to reflect their own preferences. This has the potential to empower them to compare products more effectively and gain the best value.

The big barrier to the growth of these vehicles is that data is collected and presented in different ways by different companies in the same market. Retail banks, for example, all charge for their overdrafts in different ways, charging either a daily fixed amount or interest charges, with numerous penalties for exceeding agreed limits. This makes it difficult for consumers to effective compare accounts. Ed Miliband, with Which?, has led the call for these charges to be disclosed more clearly. There is a role for government in answering this challenge. We should establish common standards for various key industries that are of great concern to working families.

Choice engines could be useful in a number of key markets. Consumers buying insurance are confronted with a plethora of complex contract terms which make exact comparison difficult. Insurance premium tax, for example, is presented differently by different providers according to the payment schedule chosen. The opaque fees found in retail banking allow cross subsidies for different types of business, but also allow scope for profit well above the cost of lending. In the energy market, incomprehensible tariff names and metrics mean that many consumers need to design their own spread sheet in order to test what's a good deal.

The idea of a choice engine is that someone else will build the spread sheet. This is only possible, though, when simple, comparable data about products are available. As Chi Onwurah has recently argued, the availability of this information is too often controlled by providers. We need to make sure that providers are compelled to release data on terms that benefits consumers rather than only releasing the information that helps maximise revenues.

The role of government, therefore, is to set common standards for key products, and require the disclosure of critical information about tariffs and prices. By enforcing these common standards, Labour can show it understands voters' concerns and help consumers make their budgets go further by exposing excessive charges. Choice engines are an abstract idea with an everyday impact. Unlike the Tories, consumers don't just want to know the price of a pint of milk; they also care about the price of their energy, water, and insurance too.

James Shafe is Corporate Affairs Manager at NEST Corporation, the not-for-profit, low cost national pension scheme.

SAVINGS ARE THE SOLUTION by David White

If I were Chancellor I would introduce a dynamic overhaul of assets policy. Why? Because we are careering blindly into an assets divide that will force communities apart.

When you are young, generally speaking, your parents are your asset, they sustain you. Then, generally speaking, you work to sustain yourself, you and your job are your assets. But what if you become too ill to work, what if you lose your job? On what assets do you depend if you don't want to work any longer and then, possibly, you need elderly care.

What does a dignified and secure retirement cost, what does elderly care cost? I am clear and desperately concerned that we are not preparing ourselves for the financial challenge of meeting these costs. The costs are spiralling as we live longer, already pensions cost half of the welfare budget, the forecasts for the increasing cost of the NHS are simply huge and the lack of positive embrace of things like the Dilnot recommendations tell us just what a difficult nut to crack is the challenge of funding elderly care.

Why aren't we preparing ourselves? There are two reasons. Firstly culture. 150 years ago we started to transfer risk from the individual to the institution, Co-ops and Friendly Societies were formed first, Old Age Pensions (Lloyd George in 1908) next, then occupational pension schemes, then Beveridge and the introduction of welfare as we know it today. All excellent initiatives, however people have become used to accepting dependency on them without any scrutiny being applied as to what the situation really is for the individual. Moreover, during the last 30 years we have been transferring the risks back to the individual without their even knowing it. Occupational pension schemes have altered dramatically such that individuals now bear both investment and under-funding risks. Longevity places even more pressure on such schemes. The savings habit has all but died and for 30 years debt has been the answer – to virtually everything. The escalating cost of elderly care is simply not even appearing on people's planning horizon.

Secondly, what should be part of the answer – engagement with the financial services industry - has suffered a massive shock. Partly because of some industry mistakes let's be clear, but also through poorly directed Government policies and a worrying lack of awareness and education related to money and the importance of managing it on the part of the public.

It's not that we don't try. Tax given up by the Exchequer on pension tax relief amounts to more than £40 billion. Several billion more is given up on ISAs. Yet the savings rate is low. The average pension 'pot' used to buy a pension in recent years had been recorded as being under £30,000 a sum that might buy you a pension of around £1200 per annum. Furthermore the use of tax relief as an incentive to save is unfair and basically doesn't work. It's unfair because it is regressive, those who earn the most and would probably provide for themselves anyway get the most tax relief. No-one understands the system. In recent research some 40% taxpayers when asked "what would make you save more into your pension plan" said "a decent tax break from the Government", not realising of course that indeed the taxpayer was already subsidising their pension savings to the tune of 40%!

So if I were Chancellor here are the solutions I would introduce – at no net increase in cost.

Education

1. Politicians are frightened of this space. That's understandable, it's a tough message –"we're all living longer and we need to save more to sustain ourselves". But that's not good enough. We need statesmanlike behaviour from our political leaders that is honest and informs the public about the huge gap that exists between what is needed and where we are.

2. A sustained and big public information exercise should be undertaken. We've done it before – "clunk-click" for seatbelts, HIV/Aids communications in the 90's, today's drink/drive ads.

3. Education in schools. All young people should leave school knowing how to manage a home budget and how to make provision for key things. I don't know an adult who doesn't agree with this!

Matching

Instead of incentivising people to save in financial products using tax relief I would introduce matching.

1. Pension saving would be matched at say 25p (full costing review needed) for every pound.

2. Saving in ISAs would be similarly matched.

3. I would introduce matched savings into Junior ISAs for the children of low-income families.

Matching is fairer, you get the same incentive regardless of what you earn other than on Junior ISAs where only the low income families would receive it. You could potentially be even more progressive by introducing bigger matches for lower paid people.

Matching is easy to understand. I have tested this up and down the country. You don't have to understand the tax system or percentages. This ease of understanding would change people's savings habits in a positive fashion.

Costs

I would take the £40 billion plus given up on pensions and ISA tax relief and turn it into matching but first I would extract several billions to fund the public awareness campaign. If undertaken I'm willing to bet I could achieve better results for significantly less than the current costs.

We must act. The divide between the asset poor and the asset rich will become intolerable if we do not. I fear to predict the social unrest that could ensue. I certainly predict a world of unfairness where the haves are safe and the have-nots are left bereft of support.

David White is Managing Director of Creative Auto Enrolment, Chair of Emcas and sits on the Policy Council of IPPR and the Board of pfeg, a financial education charity. He is also Co-chair of The Family & Childcare Trust and a Board member of Tisa, a group that represents the financial services industry.

A HOUSEHOLD CARBON BUDGET by Jack Edwards

As Chancellor I would move away from presenting policies that are lack imagination, impact and general good sense; pushing on string as they say. Instead, if I were Chancellor I would look to tackle the major problem of our age.

As the carbon content in the atmosphere is about to pass the scientifically significant 400ppm I believe it is time to properly price the emission of greenhouse gases through the introduction of a household carbon budget involving only energy bills, car ownership and aircraft flights. Such a budget will redistribute wealth from those that lead environmentally lavish lifestyles to those who don't. It will reward people who do not fly abroad, reduce their household energy consumption and choose not to have a car. This would not be a tax; instead the money would not pass through the state but directly from those that consumed more than their fair share to those who didn't. It would sidestep the common 'pricing out' argument levelled at taxes that aim to reduce carbon emissions and provide a genuine incentive to change.

International flights, household fuels and private car emissions account for 97% of household carbon emissions – clearly tackling these areas will be an effective way to reduce them. This can be done without significant intrusion into people's private lives through a system of credits which are redeemed to pay household energy bills and purchase flights or road tax. There will be no tracking of mileage, location or spending choices. The overall allowable level would be set in line with the UK's reduction targets laid out in the budgets which aim to reduce carbon emissions by 80% by 2050. In 2010, direct carbon emissions by household accounted for c.20% of the total, this proportion would be kept constant reducing the amount of carbon allowable as the targets became more stringent.

The amount of carbon allocated to each household would be prorated depending on the number of occupants and location. For a family of four, living in an area without effective public transport, for example, the default position would be to provide credits which would allow one European holiday a year, two cars and enough to heat a well-insulated house. Equating to roughly c.5t C02 per person per year and would be ratcheted down in line with government targets. In contrast a single person living in central London would be expected to get by without a car coupled with an appropriately lower home fuel allowance. If the London singleton decided that actually they would quite like a car to visit the coast on the weekend they could purchase that right from a country family that decided one car was enough for them. This transaction would be conducted through an online portal where people could buy and sell credits depending on need.

The aim of the policy would be to encourage people to think twice about whether the second car or holiday abroad was needed. With the result that investment in energy efficiency is encouraged and a wealth transfer would occur from those that could afford second holidays to those that couldn't.

Jack Edwards is currently undertaking the Commercial Banking graduate scheme at Lloyds Banking Group, having recently graduated from Bristol University with a degree in Civil Engineering.

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