

It is not simply about the banks; the times demand radical solutions.

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The United Kingdom is facing the worst economic crisis in living memory. The Government has declared that they are not prepared simply to "let the recession take its course" and have, consequently, proposed a tripartite approach: firstly, to borrow on an unprecedented scale, secondly, to cut certain taxes (VAT for example) today but raise other taxes (National Insurance for example) tomorrow, and thirdly to plead with the Banks to lend funds again.

This approach, however, is misconceived:

- Borrowing at the level involved is a course of action that will bequeath to the country a trillion-pound debt;
- Despite the assertions of the Chancellor to the contrary, it beggars belief that a tiny, temporary, cut in VAT (from 17.5% to 15%) will act as a significant boost to spending by the public.
- Similarly, the knowledge of higher public taxes to come in the very near future is hardly likely to act as an incentive to the public to spend now.
- In addition, simply pleading with the Banks to lend funds again is not producing - and will not produce - the required results in this regard.

Indeed, this tripartite approach is not merely misconceived it will not work.

No, the whole approach smacks of panic and muddled thinking.

What will work? What in fact should we be doing?

Firstly, we should not be bailing out banks that have failed. Doing so is not the best use of public money. Their managements have failed and,

consequently, should not be allowed to continue; they should simply ‘go out of business’ and their debts be written off. The Government however should guarantee all savings/deposits and take the physical entities over, either making them part of an existing structure (such as the post office) or forming an independent (as the BBC is independent) ‘national bank’ (incorporating those parts of the banking sector already in the public domain), one whose immediate tasks will be to start lending - at affordable rates of interest - to individuals, householders and businesses.

As part of this approach, banks would be divided between ‘traditional’ banks and ‘investment’ banks – a division that would be complete (ie the profits of one could not cover the liabilities of another). In addition, a system of ‘classification’ of banks should be introduced into the sector: Grade A banks (giving low levels of interest but where there would be a ‘guaranteed no-risk’ to the amount of savings); Grade B banks (giving higher levels of interest but where only a proportion of the original savings would be guaranteed); Grade C banks (giving high levels of interest but where only a small proportion of the deposit would be guaranteed). Banks without a classification (licence) would not be allowed to operate within the UK. If individuals chose to use unclassified/unlicensed banks external to the UK they would do so entirely at their own risk. The classification – and ‘policing’ of this system – would be done through an ‘Office of the Banking Regulator & Ombudsman’.

Secondly, the Government ought to kick-start the economy not by spending billions on bailing out failed banks (and as a consequence becoming responsible for toxic debt) but by investment in public works, namely:

- Massive inner-city regeneration and house building programme;
- Providing for whole-scale energy conservation works in peoples homes and in public buildings (schools, hospitals, etc) – insulation, double glazing, solar panels, etc.;
- Increased investment in energy renewables – sun, wind and wave;
- Increased investment in rubbish/garbage recycling schemes;
- Increased investment in energy efficient and environmentally friendly transport programmes.

This investment will produce a variety of practical benefits:

- It will pump money into the economy;

- It will increase employment - direct and indirect - and, consequently, peoples spending power;
- It will help address the housing shortage and homelessness;
- It will help with regard to energy conservation;
- It will help reduce energy consumption and enable the country to cut our greenhouse gas emissions – facilitating our ability to meet our stated targets in this regard.

Thirdly, the regulatory framework for the whole financial sector needs to be completely revamped so as to ensure that the country is not put in this position again. For example, and as outlined, the classification and ‘policing’ of the banking system would be done through an ‘Office of the Banking Regulator & Ombudsman’. Similarly, an Office of the Financial Services Regulator & Ombudsman (in place of the current Financial Services Authority) with regulatory authority over all non-banking financial services would be established. In addition, a distinct Auditing framework - distinct from Accounting - should be set up under the auspices of the National Audit Office through which all public and private sector entities would be audited.

As part of this overhaul of the regulatory framework, a regular, high-level, ‘information-sharing and co-ordinating forum’ consisting of the Bank of England, HM Treasury, the Office of the Banking Regulator & Ombudsman, the Office of the Financial Services Regulator & Ombudsman and the (London) Stock Exchange - under a separate, independent, chair (and support staff) - would be established.

Fourthly, the tax system should be radically reformed, not least of all with the fundamental principle of simplification at its base. This would entail:

- Raising the tax threshold - increasing the amount individuals can earn prior to paying tax. The proposal would be that no tax is paid on the first £8,000 earned.
- National Insurance - employee and employer - would be abolished.
- Income tax should be set at 30% on incomes between £8,001 and £58,000; at 40% on incomes between £58,001 and £158,000; and 50% on incomes above £158,00
- A ‘Graduate Tax’ [an additional percentage] would be added to the rate of income tax paid by all graduates from the date they begin earning above £20,000 to the date they become 60 years old. This tax would fund ‘free’ University education.

- Corporation Tax should be set at three-tier rates, namely 30%, 40% and 50% - with 30% paid on profits up to £500,000; 40% paid on profits of more than £500,000 up to £5million; and 50% paid on profits above £5million.
- VAT should be set at 15% on all taxable items up to the value of £1,000 and at 18% at all items with the value of more than £1,000. A new 'Health' VAT rate of 25% should be introduced for alcohol and cigarettes. [In addition, health & hygiene items would be zero-rated].
- The Council Tax would be abolished and replaced by a designated proportion of (national) income tax.
- All other taxes (eg Stamp Duty) would be abolished.
- A review of all non-taxable items ('benefits in kind, etc) to be carried out and action to be taken against all tax avoidance.

Fifth, (i) a reassessment of all Government expenditure with a view to making significant savings from cutting programmes – such as scrapping plans for the introduction of National Identity Cards and a replacement for the Trident nuclear weapons system.

(ii) action to be taken at all levels against administrative bureaucracy, with the dual goals of simplification and cutting wasteful expenditure.

Sixth, the Government to get involved –in effective partnership with the private sector – in actual work placement (specifically placing the unemployed in employment) and, in doing so, reducing the financial burden of welfare dependency.

It is only from such a six-pronged approach that the country will be able to avoid the most serious implication and consequences of the recession and position itself to prosper in the future.

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